UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

THE REGISTRANT MEETS THE CONDITIONS FOR SET FORTH IN GENERAL INSTRUCTIONS I(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH THE REDUCED DISCLOSURE FORMAT.

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF
THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER: 0-31248

ALLSTATE LIFE INSURANCE COMPANY
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

ILLINOIS	36-2554642
(STATE OF INCORPORATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

3100 SANDERS ROAD NORTHBROOK, ILLINOIS	60062
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: 847/402-5000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE SECURITIES EXCHANGE ACT OF 1934: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934: COMMON STOCK, PAR VALUE $227.00 PER SHARE

THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS. YES /X/ NO / /

INDICATE BY CHECK MARK IF DISCLOSURE OF DELINQUENT FILERS PURSUANT TO ITEM 405 OF REGULATION S-K IS NOT CONTAINED HEREIN, AND WILL NOT BE CONTAINED, TO THE BEST OF REGISTRANT'S KNOWLEDGE IN DEFINITIVE PROXY OR INFORMATION STATEMENTS INCORPORATED BY REFERENCE IN PART III OF THIS FORM 10-K OR ANY AMENDMENT TO THIS FORM 10-K. /X/

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS AN ACCELERATED FILER (AS DEFINED IN RULE 12b-2 OF THE SECURITIES EXCHANGE ACT OF 1934). YES / / NO /X/

NONE OF THE COMMON EQUITY OF THE REGISTRANT IS HELD BY NON-AFFILIATES. THEREFORE, THE AGGREGATE MARKET VALUE OF THE COMMON EQUITY HELD BY NON-AFFILIATES OF THE REGISTRANT IS ZERO.

AS OF MARCH 15, 2004, THE REGISTRANT HAD 23,800 COMMON SHARES, $227 PAR VALUE, OUTSTANDING, ALL OF WHICH ARE HELD BY ALLSTATE INSURANCE COMPANY.

PART III OF THIS FORM 10-K INCORPORATES BY REFERENCE CERTAIN INFORMATION FROM THE ALLSTATE CORPORATION NOTICE OF ANNUAL MEETING AND PROXY STATEMENT DATED MARCH 26, 2004, SEC FILE NUMBER 1-11840.

ALLSTATE LIFE INSURANCE COMPANY
INDEX TO ANNUAL REPORT ON FORM 10-K
DECEMBER 31, 2003

* Omitted pursuant to General Instruction I(2) of Form 10-K

PART I

ITEM 1. BUSINESS.

Allstate Life Insurance Company was organized in 1957 as a stock life insurance company under the laws of the State of Illinois. Allstate Life Insurance Company, together with its subsidiaries, produces personal life insurance, retirement and savings products for individual consumers and a variety of investment products for institutional investors. It conducts substantially all of its operations directly or through wholly owned U.S. subsidiaries. In this document, we refer to Allstate Life Insurance Company as "Allstate Life" or "ALIC" and to Allstate Life and its wholly owned subsidiaries as the "Allstate Life Group" or the "Company."

Allstate Life is a wholly owned subsidiary of Allstate Insurance Company, a stock property-liability insurance company organized under the laws of the State of Illinois. All of the outstanding stock of Allstate Insurance Company is owned by The Allstate Corporation, a publicly owned holding company incorporated under the laws of the State of Delaware. The Allstate Corporation is the largest publicly held personal lines insurer in the United States. Widely known through the "You're In Good Hands With Allstate(R)" slogan, The Allstate Corporation provides insurance products to more than 16 million households and has approximately 12,900 exclusive agencies and exclusive financial specialists in the United States and Canada. The Allstate Corporation is the second-largest personal property and casualty insurer in the United States on the basis of 2002 statutory premiums earned and through the Allstate Life Group and other life companies is the nation's 13th-largest life insurance business on the basis of 2002 ordinary life insurance in force and 19th on the basis of 2002 statutory admitted assets. In this document, we refer to Allstate Insurance Company as "AIC" and to The Allstate Corporation and its consolidated subsidiaries as the "Parent Group" or the "Corporation."

The Parent Group has four business segments, one of which is Allstate Financial. Allstate Financial, which is not a separate legal entity, is composed of the Allstate Life Group together with other Parent Group subsidiaries that are not part of the Allstate Life Group. In addition to being one of the Parent Group's business segments, the name Allstate Financial has been used from time to time to refer collectively to the Allstate Life Group, the Allstate Bank and other Parent Group subsidiaries. This document describes the Allstate Life Group. It does not describe the entire group of companies that form the Allstate Financial segment of the Parent Group.

In this annual report on Form 10-K, we occasionally refer to statutory financial information that has been prepared in accordance with the National Association of Insurance Commissioners ("NAIC") Accounting Practices and Procedure Manual. All domestic U.S. insurance companies are required to prepare statutory-basis financial statements in accordance with the Manual. As a result, industry data is available on a widespread basis that enables comparisons between insurance companies, including competitors that are not subject to the requirement to publish financial statements on the basis of accounting principles generally accepted in the United States of America ("GAAP.") We frequently use industry publications containing statutory financial information to assess our competitive position.

PRODUCTS

The Allstate Life Group products are listed below. We continue to develop new versions of these products to satisfy evolving consumer needs.

INSURANCE

Term life
Universal life
Single premium life
Variable life
Variable universal life
Whole life
Long-term care
Accidental death
Hospital indemnity

ANNUITIES
OTHER ----
----- ----
-- Fixed
annuities
Funding
agreements
(Immediate
and
deferred,
including
indexed)
Variable
annuities
Structured
settlement
annuities

During 2003, we discontinued sales of traditional guaranteed investment contracts ("GICs") and synthetic GICs.

Information regarding premiums and contract charges by product for the Allstate Life Group for the last three years is set forth in Management's Discussion and Analysis of Financial Condition and Results of Operations, page 14, in the table presenting premiums and contract charges by product. That table is incorporated in this Part I, Item 1 by reference.

RISK MANAGEMENT, UNDERWRITING AND PRICING

For individual life insurance policies, we use detailed and uniform underwriting policies and procedures to assess and quantify the risk of each applicant. In some cases we require medical examinations and in some cases we may order attending physicians statements and consumer investigative reports. For supplemental accident and health insurance products, we use a more simplified underwriting approach.

Structured settlement annuities and immediate annuities are underwritten using recent mortality experience and an assumption of continued improvement in annuitant longevity.

Some of our life insurance policies allow us to adjust charges and credits, generally, to reflect changes from expected mortality and expense experience or higher or lower investment returns. However, we are subject to contractual maximum charges and minimum crediting rates and state regulatory limits on increasing charges after a policy is issued.

We price our personal life insurance, retirement and savings products at issuance to achieve a target return on required capital based on assumptions regarding mortality, expenses, investment return, persistency, required reserves and capital. Our assumptions are based on regular reviews of our experience in this business. Periodically, we revise in-force products through non-guaranteed charges or credits to reflect changes in experience and to preserve the margins originally priced into the product.

For funding agreements, our risk management strategy is based on:

- Using sophisticated systems and processes to project expected cash flows for assets and liabilities and to measure the sensitivity of asset and liability cash flows to interest rate changes.

- Managing interest rate exposure to control the "duration match" of assets and liabilities. In other words, closely matching the relative sensitivity of asset and liability values to interest rate changes when feasible, often by using derivative financial instruments.
- Primarily writing contracts with predictable maturity structures and without credit event triggers, cross default acceleration clauses or premature surrender or redemption provisions.
- Monitoring withdrawal activity to detect deviations from expected cash flows.
- Establishing multi-disciplinary working groups of professionals with expertise in investment, sales, financial and pricing management to manage risk.

DISTRIBUTION

The Allstate Life Group distributes its products through various distribution channels, as described below. This multi-channel distribution strategy results in a broad distribution network and increases operating flexibility while allowing us to focus our marketing efforts.

INDEPENDENT AGENTS. Through master brokerage agencies, we use independent agents to distribute term life insurance, universal life insurance, variable universal life insurance, fixed annuities (immediate and deferred, including indexed), variable annuities and long-term care insurance.

ALLSTATE EXCLUSIVE AGENCIES. Through Allstate agencies, we use exclusive agents and exclusive financial specialists to increase sales of our personal life insurance, retirement and savings products. The products distributed through this channel include term life insurance, whole life insurance, universal life insurance, variable universal life insurance, deferred fixed annuities, variable annuities, long-term care insurance, and non-proprietary mutual funds.

BROKER-DEALERS. Through broker-dealers across the country, we target consumers who want assistance in investing for retirement. The products that we distribute through broker-dealers include fixed annuities (deferred, including indexed), variable annuities and single premium variable life insurance. We have established distribution arrangements with most national broker-dealers and regional firms and with many independent broker-dealers.

FINANCIAL INSTITUTIONS. We also use financial institutions across the country to target consumers who want assistance in investing for retirement. The products that we distribute through financial institutions include fixed annuities (deferred, including indexed), variable annuities, single premium fixed life insurance and single premium variable life insurance. We have established distribution arrangements with a growing number of leading financial institutions.

DIRECT MARKETING. In 2003, we continued to use direct marketing techniques such as telemarketing and direct mail to distribute primarily term life insurance, accidental death insurance and hospital indemnity products. However, we intend to dispose of this distribution channel in 2004.

INSTITUTIONAL INVESTORS - FUNDING AGREEMENTS. Primarily, we sell funding agreements directly to variable interest entities that issue medium-term notes through investment banks to investors seeking high-quality, fixed-income investments. However, we also sell funding agreements, directly or through specialized brokers, to short-term institutional money managers seeking high-quality investments with reasonable liquidity. Approximately 84% of our funding agreement sales are derived from transactions in which a variable interest entity purchases a funding agreement with terms similar to those of notes issued by the variable interest entity to institutional investors. The level of funding agreement sales to variable interest entities is dependent on conditions in the capital markets. As a result, sales of funding agreements can vary widely from one reporting period to another.

STRUCTURED SETTLEMENT ANNUITIES. We have relationships with several structured settlement brokers and brokerage firms across the country. In addition, a significant number of the structured settlement annuities that we sold in 2003 originated with cases referred from claims activity in the Parent Group's Allstate Protection segment.

The following table lists the Allstate Life Group's major distribution channels with the associated primary products and targeted customers.

DISTRIBUTION CHANNEL PRIMARY PRODUCTS TARGETED CUSTOMERS - - ------------- ------------- - ----------- ------------- ------------- -- ---------- ------------- ----------- INDEPENDENT AGENTS Term life insurance Affluent and middle-income Universal life insurance consumers with retirement and Variable universal life insurance family financial protection needs Fixed annuities (Immediate and deferred, including indexed) Variable annuities Long-term care insurance ALLSTATE EXCLUSIVE Term life insurance Moderate and middle-income AGENCIES Whole life insurance consumers with retirement and Universal life insurance family financial protection needs Variable universal life insurance Fixed annuities (Deferred) Variable annuities Long-term care insurance Nonproprietary mutual funds BROKER- DEALERS Fixed

annuities
Affluent and
middle-income
(Deferred,
including
indexed)
consumers
with
retirement
needs
Variable
annuities
Single
premium
variable life
insurance
FINANCIAL
INSTITUTIONS
Fixed
annuities
Middle-income
consumers
with
(Deferred,
including
indexed)
retirement
needs
Variable
annuities
Single
premium fixed
life
insurance
Single
premium
variable life
insurance
DIRECT
MARKETING
Term life
insurance
Moderate-
income
consumers
with
Accidental
death
insurance
family
financial
protection
needs
Hospital
indemnity
DIRECT
MARKETING AND
Funding
agreements
Institutional
investors
SPECIALIZED
BROKERS TO
INSTITUTIONAL
INVESTORS
STRUCTURED
SETTLEMENT
Structured
settlement
annuities
Typically
used to fund
or ANNUITY
BROKERS
annuitize
large claims
or litigation
settlements

GEOGRAPHIC MARKETS

We sell our personal life insurance, retirement, savings and supplemental accident and health insurance products throughout the United States. Through subsidiary insurance companies, we are authorized to sell various types of these products in all 50 states, the District of Columbia, Puerto Rico, Guam and the U.S. Virgin Islands.

We sell funding agreements in the United States and in the Cayman Islands. However, in the Cayman Islands, our distribution is generally limited to selling funding agreements to support medium-term note programs.

The following table reflects, in percentages, the principal geographic distribution of statutory premiums and annuity considerations for the Allstate Life Group for the year ended December 31, 2003, based on information contained in statements filed with state insurance departments. Approximately 93.8% of the statutory premiums and annuity considerations generated in Delaware represent deposits received in connection with funding agreements sold to a variable interest entity domiciled in Delaware. No other jurisdiction accounted for more than five percent of the statutory premiums and annuity considerations.

Delaware	17.3%
California	9.7
New York	6.6
Florida	5.7
Pennsylvania	5.1

COMPETITION

With regard to our personal life insurance, retirement, savings and supplemental accident and health insurance products, we compete principally on the basis of the scope of our distribution systems, the breadth of our product offerings, the recognition of our brands, our financial strength and ratings, our product features and prices, and the level of customer service that we provide. In addition, with respect to variable life and variable annuity products, we compete on the basis of the variety of providers and choices of funds for our separate accounts and the management and performance of those funds within our separate accounts.

The market for these products continues to be highly fragmented and competitive. As of December 31, 2002, there were approximately 780 groups of life insurance companies in the United States, most of which offered one or more products similar to the Allstate Life Group's products. Based on information contained in statements filed with state insurance departments, as of December 31, 2002, the Allstate Life Group ranked 13th based on ordinary life insurance in force and 19th based on statutory admitted assets. In some states, we compete with banks and savings and loan associations in the sale of life insurance products. In addition, because many of these products include a savings or investment component, our competition includes securities firms, investment advisors, mutual funds, banks and other financial institutions. Competitive pressure is growing due to several factors, including cross marketing alliances between unaffiliated businesses, as well as consolidation activity in the financial services industry.

REGULATION

The Allstate Life Group is subject to extensive regulation. In the U.S. the method, extent and substance of such regulation varies by state but generally has its source in statutes that delegate regulatory authority to a state regulatory agency and define standards of conduct. In general, such regulation is intended for the protection of insurance policyholders rather than security holders. These rules have a substantial effect on our business and relate to a wide variety of matters including insurance company licensing and examination, agent licensing, price setting, trade practices, policy forms, accounting methods, the nature and amount of investments, claims practices, participation in guaranty funds, reserve adequacy, insurer solvency, transactions with affiliates, the payment of dividends, and underwriting standards. Some of these matters are discussed in more detail below. For a discussion of statutory financial information, see Note 14 of the Consolidated Financial Statements. For a discussion of regulatory contingencies, see Note 11 of the Consolidated Financial Statements. Notes 14 and 11 are incorporated in this Part I, Item 1 by reference.

In recent years the state insurance regulatory framework has come under increased federal scrutiny and legislation that would provide for federal chartering of insurance companies has been proposed. In addition, state legislators and insurance regulators continue to examine the appropriate nature and scope of state insurance regulation. We cannot predict whether any state or federal measures will be adopted to

change the nature or scope of the regulation of the insurance business or what effect any such measures would have on the Allstate Life Group.

LIMITATIONS ON DIVIDENDS BY INSURANCE SUBSIDIARIES. Allstate Life may receive dividends from time to time from its subsidiaries. When received, these dividends represent a source of cash from which Allstate Life may meet some of its obligations. If a subsidiary is an insurance company, its ability to pay dividends may be restricted by state laws regulating insurance companies. For additional information regarding those restrictions, see Note 14 of the Consolidated Financial Statements.

GUARANTY FUNDS. Under state insurance guaranty fund laws, insurers doing business in a state can be assessed, up to prescribed limits, in order to cover certain obligations of insolvent insurance companies.

INVESTMENT REGULATION. Our insurance companies are subject to regulations that require investment portfolio diversification and that limit the amount of investment in certain categories. Failure to comply with these rules leads to the treatment of non-conforming investments as non-admitted assets for purposes of measuring statutory surplus. Further, in some instances, these rules require divestiture of non-conforming investments. As of December 31, 2003, the investment portfolios of our insurance companies did not contain any investments that were non-admitted for failure to comply with such laws and regulations.

VARIABLE LIFE INSURANCE, VARIABLE ANNUITIES AND REGISTERED FIXED ANNUITIES. The sale of variable life insurance, variable annuities and registered fixed annuities with market value adjustment features are subject to extensive regulatory oversight at the federal and state level, including regulation and supervision by the Securities and Exchange Commission and the National Association of Securities Dealers.

BROKER-DEALERS, INVESTMENT ADVISORS AND INVESTMENT COMPANIES. The Allstate Life Group entities that operate as broker-dealers, registered investment advisors and investment companies are subject to regulation and supervision by the Securities and Exchange Commission, the National Association of Securities Dealers and/or, in some cases, state securities administrators.

REGULATION AND LEGISLATION AFFECTING CONSOLIDATION IN THE FINANCIAL SERVICES INDUSTRY. The Gramm-Leach-Bliley Act of 1999 permits mergers that combine commercial banks, insurers and securities firms within one holding company group. Until passage of the Gramm-Leach-Bliley Act, the Glass Steagall Act of 1933 had limited the ability of banks to engage in securities-related businesses and the Bank Holding Company Act of 1956 had restricted banks from being affiliated with insurers. With the passage of the Gramm-Leach-Bliley Act, bank holding companies may acquire insurers and insurance holding companies may acquire banks. In addition, grandfathered unitary thrift holding companies, including our parent company, may engage in activities that are not financial in nature. The ability of banks to affiliate with insurers may materially adversely affect our business by substantially increasing the number, size and financial strength of potential competitors.

PRIVACY REGULATION. Federal law and the law of some states require financial institutions to protect the security and confidentiality of customer information and to notify customers about their policies and practices relating to their collection and disclosure of customer information and their policies relating to protecting the security and confidentiality of that information. Federal and state law also regulate disclosures of customer information. Congress, state legislatures and regulatory authorities are expected to consider additional regulation relating to privacy and other aspects of customer information.

TAX. State and federal laws affect the taxation of insurance companies. Congress and various state legislatures have occasionally considered proposals that, if enacted, could impose a greater tax burden on the Allstate Life Group.

EMPLOYEES AND OTHER SHARED SERVICES

The Allstate Life Group has no employees. Instead, we primarily use the services of employees of Allstate Insurance Company, our direct parent. We also make use of other services and facilities provided by Allstate Insurance Company and other members of the Parent Group. These services and facilities include space rental, utilities, building maintenance, human resources, investment management, finance, information technology and legal services. We reimburse our affiliates for these services and facilities under a variety of agreements.

SERVICE MARKS

The Allstate Life Group, together with the Parent Group, uses the following names, logos and slogans extensively in our business:

Allstate
Allstate Financial design logo
Allstate Life
Allstate Treasury-Linked Annuity
Glenbrook
Good Hands
TrueReturn
Insure Today. Secure Tomorrow.
Lincoln Benefit Life
Northbrook Design Logo
The Good Hand Network
The Good Hands People
Slant "A" Allstate Logo

You're In Good Hands With Allstate
The Right Hands Make All The Difference

In addition, we use the graphic "Good Hands" design logos featuring cupped hands. Our rights in the United States to these names, logos and slogans continue so long as we continue to use them in commerce. Most of these service marks are the subject of renewable U.S. and/or foreign service mark registrations. We believe that these service marks are important to our business and we intend to maintain our rights to them by continued use.

ITEM 2. PROPERTIES.

Our home office is part of the Parent Group's home office complex in Northbrook, Illinois. The complex consists of several buildings totaling approximately 2.3 million square feet of office space on a 250-acre site. In addition, we operate from various administrative, data processing, claims handling and support facilities.

All of the facilities from which we operate are owned or leased by our direct parent, Allstate Insurance Company, except for office space in Lincoln, Nebraska that is leased by Lincoln Benefit Life Company, a wholly owned subsidiary of ALIC, for general operations, file storage and information technology. Expenses associated with facilities owned or leased by Allstate Insurance Company are allocated to us on both a direct and an indirect basis, depending on the nature and use of each particular facility. We believe that these facilities are suitable and adequate for our current operations.

The locations from which the Parent Group exclusive agencies operate in the U.S. are normally leased by the agencies as lessees.

ITEM 3. LEGAL PROCEEDINGS.

Information required for Item 3 is incorporated by reference to the discussion under the heading "Regulation" and under the heading "Legal proceedings" in Note 11 of the Company's consolidated financial statements in Item 8 of this Form 10-K.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDER.

Omitted.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

There is no public trading market for Allstate Life's common stock. All of its outstanding common stock is owned by its parent, Allstate Insurance Company ("AIC"). All of the outstanding common stock of AIC is owned by The Allstate Corporation.

From January 1, 2002 through March 15, 2004, Allstate Life paid the following amounts to AIC in the aggregate on the dates specified as dividends on its common stock:

PAYMENT DATE	AGGREGATE AMOUNT
March 28, 2002	$ 43,750,000
December 30, 2002	14,075,000
June 19, 2003	68,661,984
September 30, 2003	25,000,000
November 26, 2003	29,551,010
January 20, 2004	75,000,000

Within the past three years, the only equity securities sold by Allstate Life that were not registered under the Securities Act of 1933 have been shares of preferred stock issued to companies that are wholly-owned by The Allstate Corporation. These securities were issued in transactions that were exempt from registration under the Securities Act of 1933 because they did not involve a public offering.

For additional information on dividends, including restrictions on the payment of dividends by Allstate Life and its subsidiaries, see the "Liquidity" subsection of the "Capital Resources and Liquidity" section of our "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this Form 10-K, which is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA.

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES
5-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(IN MILLIONS)	2003	2002	2001	2000	1999
CONSOLIDATED OPERATING RESULTS					
Premiums	$ 959	$ 1,023	$ 1,046	$ 1,069	$ 838
Contract charges	872	853	821	798	723
Net investment income	3,082	2,978	2,833	2,589	2,239
Realized capital gains and losses	(84)	(422)	(207)	(26)	192
Total revenues	4,829	4,432	4,493	4,430	3,992
Income from					

continuing
operations
291 245 374
470 504
Cumulative
effect of
change in
accounting
principle,
after-tax
(13) -- (6) -
- -- Net
income 278
245 368 470
504
CONSOLIDATED
FINANCIAL
POSITION
Investments $
59,989 $
52,670 $
44,297 $
38,620 $
32,879 Total
assets 78,812
68,846 62,622
58,191 50,447
Reserve for
life-
contingent
contract
benefits and
contractholder
funds 55,394
48,591 40,933
35,676 31,143
Shareholder's
equity 6,429
6,362 5,397
5,125 4,365

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Management's Discussion and Analysis ("MD&A") highlights significant factors influencing the consolidated financial position and results of operations of Allstate Life Insurance Company ("ALIC") and its wholly owned subsidiaries (together with ALIC, "we", "our", "us" or the "Company"). ALIC is wholly owned by Allstate Insurance Company ("AIC"), a wholly owned subsidiary of The Allstate Corporation (the "Corporation"). It should be read in conjunction with the selected financial data, consolidated financial statements and related notes found under Part II, Item 6 and Item 8 contained herein. We operate as a single segment entity, based on the manner in which financial information is used internally to evaluate performance and determine the allocation of resources.

The most important matters that we monitor to evaluate the financial condition and performance of our company include:

- For Operations: investment and mortality margins, the amortization of deferred policy acquisition costs, premiums and deposits, expenses, operating income, invested assets, contractholder funds, separate accounts and face amount of life insurance in force;
- For Investments: credit quality/experience, stability of long-term returns, cash flows and asset and liability duration;
- For financial condition: our financial strength ratings and operating leverage; and
- For product distribution: profitably growing distribution partner relationships and Allstate agent sales of all products and services in order to meet the financial needs of our customers.

2003 HIGHLIGHTS

- Revenues increased 9.0% in 2003 compared to 2002. This increase was primarily due to lower net capital losses in 2003. Excluding net capital losses, revenues increased 1.2% in 2003 to $4.91 billion primarily due to increased net investment income.
- Net income increased to $278 million in 2003 from $245 million in 2002. This increase was primarily due to lower net realized capital losses in 2003, partly offset by higher income tax expense and an increased loss on disposition of operations.
- Investments, including separate accounts assets, increased 15.1% to $73.41 billion due primarily to strong contractholder funds deposits and increases in separate accounts balances resulting from improved equity market performance during the year.
- Contractholder funds deposits totaled $9.84 billion for 2003 compared to $8.92 billion in 2002. The increase of $925 million was primarily attributable to fixed annuity and institutional product deposits.

CONSOLIDATED NET INCOME

AS OF AND FOR THE YEARS ENDED DECEMBER 31,	2003	2002	2001
(IN MILLIONS)			
REVENUES			
Premiums	$ 959	$ 1,023	$ 1,046
Contract charges	872	853	821
Net investment income	3,082	2,978	2,833
Realized capital gains and losses	(84)	(422)	(207)
Total revenues	4,829	4,432	4,493
COSTS AND EXPENSES			
Contract benefits	(1,595)	(1,543)	(1,485)
Interest credited to contractholder funds	(1,764)	(1,691)	(1,670)
Amortization			

of deferred
policy
acquisition
costs (479)
(418) (365)
Operating
costs and
expenses
(493) (475)
(416) -------
--- ---------
- ----------
Total costs
and expenses
(4,331)
(4,127)
(3,936) Loss
on
disposition
of operations
(45) (3) (4)
Income tax
expense (162)
(57) (179)
Cumulative
effect of
change in
accounting
principle,
after-tax
(13) -- (6) -
--------- ---
------- -----
----- NET
INCOME $ 278
$ 245 $ 368
==========
==========
==========
Investments $
59,989 $
52,670 $
44,297
Separate
Accounts
assets 13,425
11,125 13,587
---------- --
-------- ----

Investments,
including
Separate
Accounts
assets $
73,414 $
63,795 $
57,884
==========
==========
==========

APPLICATION OF CRITICAL ACCOUNTING POLICIES

We have identified four accounting policies that require us to make assumptions and estimates that are significant to the consolidated financial statements. It is reasonably likely that changes in these assumptions and estimates could occur from period to period and have a material impact on our consolidated financial statements. A brief summary of each of these critical accounting policies follows. For a more complete discussion of the effect of these policies on our consolidated financial statements, and the judgments and estimates relating to these policies, see the referenced sections of MD&A. For a complete summary of our significant accounting policies see Note 2 of the consolidated financial statements.

INVESTMENT VALUATION The fair value of publicly traded fixed income and equity securities is based on independent market quotations, whereas the fair value of non-publicly traded securities is based on either widely accepted pricing valuation models which use internally developed ratings and independent third party data as inputs or independent third party pricing sources. Factors used in our internally developed models, such as liquidity risk associated with privately-placed securities are difficult to observe and to characterize. Because of this, judgment is required in developing certain of these estimates and, as a result, the estimated fair value of non-publicly traded securities may differ from amounts that would be realized upon an immediate sale of the securities.

Periodic changes in fair values of investments classified as available for sale (other than those accounted for under the cost or equity method) are reported as a component of accumulated other comprehensive income on the Consolidated Statements of Financial Position and are not reflected in the operating results of any period until reclassified to net income upon the consummation of a transaction with an unrelated third party, or when declines in fair values are deemed other than temporary. The assessment of other than temporary impairment of a security's fair value is performed on a case-by-case basis

considering a wide range of factors. There are a number of assumptions and estimates inherent when assessing impairments and determining if they are other than temporary, including 1) our ability and intent to retain the investment for a period of time sufficient to allow for an anticipated recovery in value; 2) the expected recoverability of principal and interest; 3) the duration and extent to which the fair value has been less than cost for equity securities or amortized cost for fixed income securities; 4) the financial condition, near-term and long-term prospects of the issuer, including relevant industry conditions and trends, and implications of rating agency actions and offering prices; and 5) the specific reasons that a security is in a significant unrealized loss position, including market conditions which could affect liquidity. Additionally, once assumptions and estimates are made, any number of changes in facts and circumstances could cause us to later determine that an impairment is other than temporary, including 1) general economic conditions that are worse than assumed or that have a greater adverse effect on a particular issuer than originally estimated; 2) changes in the facts and circumstances related to a particular issuer's ability to meet all of its contractual obligations; and 3) changes in facts and circumstances or new information that we obtain which causes a change in our ability or intent to hold a security to maturity or until it recovers in value. Changes in assumptions, facts and circumstances could result in additional charges to earnings in future periods to the extent that losses are realized. The charge to earnings, while potentially significant to net income, would not have a significant effect on shareholder's equity since the majority of our portfolio is held at fair value and as a result, the related unrealized loss, net of tax, would already be reflected as accumulated other comprehensive income in shareholder's equity.

For a more detailed discussion of the risks relating to changes in investment values and levels of investment impairment, and the potential causes of such changes, see Note 6 of the consolidated financial statements and the Investments, Market Risk and Forward-looking Statements and Risk Factors sections of the MD&A.

DERIVATIVE INSTRUMENT HEDGE EFFECTIVENESS In the normal course of business, we use derivative financial instruments to reduce our exposure to market risk and in conjunction with asset/liability management. The fair value of exchange traded derivative contracts is based on independent market quotations, whereas the fair value of non-exchange traded derivative contracts is based on either widely accepted pricing valuation models which use independent third party data as inputs or independent third party pricing sources.

When derivatives meet specific criteria, they may be designated as accounting hedges and accounted for as fair value, cash flow, foreign currency fair value, or foreign currency cash flow hedges. When designating a derivative as an accounting hedge, we formally document the hedging relationship, risk management objective and strategy. The documentation identifies the hedging instrument, the hedged item, the nature of the risk being hedged and the assumptions used to assess how effective the hedging instrument is in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk. In the case of a cash flow hedge, this documentation includes the exposure to changes in the hedged transaction's variability in cash flows attributable to the hedged risk. We do not exclude any component of the change in fair value of the hedging instrument from the effectiveness assessment. At each reporting date, we confirm that the hedging instrument continues to be highly effective in offsetting the hedged risk. The determination of whether a hedging instrument is effective both at its inception and on an on-going basis requires a significant degree of judgment. For further discussion of these policies and quantification of the impact of these estimates and assumptions, see Note 7 of the consolidated financial statements and the Investments, Market Risk and Forward-looking Statements and Risk Factors sections of the MD&A.

DEFERRED POLICY ACQUISITION COST ("DAC") AMORTIZATION We incur significant costs in connection with acquiring business. In accordance with generally accepted accounting principles ("GAAP"), costs that vary with and are primarily related to acquiring business are deferred and recorded as an asset on the Consolidated Statements of Financial Position.

DAC related to traditional life insurance and other premium paying contracts is amortized over the premium paying period of the related policies in proportion to the estimated revenues on such business. Assumptions relating to estimated premiums, investment income and realized capital gains and losses, as well as to all other aspects of DAC are determined based upon conditions as of the date of policy issue and are generally not revised during the life of the policy. Any deviations from projected business in force resulting from actual policy terminations differing from expected levels, and any estimated premium deficiencies, change the rate of amortization in the period such events occur. Generally, the amortization period for these contracts approximates the estimated lives of the contracts.

DAC related to interest-sensitive life, variable annuities and investment contracts is amortized in relation to the present value of estimated gross profits ("EGP") over the estimated lives of the contracts. Generally, the amortization period ranges from 15-30 years. However, an assumption for the rate of contract surrenders is also used, which results in the majority of the DAC being amortized over the surrender charge period. The rate of amortization during the surrender charge period is matched to the assumed pattern of EGP. EGP consists of estimates of the following components: margins from mortality including guaranteed minimum death and income benefits; investment margin including realized capital gains and losses; and contract administration, surrender and other contract charges, less maintenance expenses.

The most significant assumptions involved in determining EGP are the expected separate accounts fund performance after fees, surrender rates, lapse rates, and investment and mortality margins. Our long-term assumption of separate accounts fund performance after fees is approximately 8%, which is consistent with our pricing assumptions. Whenever actual separate accounts fund performance, based on the two most recent years, varies from 8%, we create an estimate of performance levels over the next five years such that the mean return over that seven-year period equals the long-term 8% assumption. This process is referred to as a "reversion to the mean" and is commonly used by the life insurance industry. Although the use of a reversion to the mean assumption is common within the industry, the parameters used in the methodology are subject to judgment and vary between companies. For example, when applying this assumption we do not allow the future mean rate of returns after fees projected over the five-year period to exceed 12.75% or fall below 0%. Revisions to EGPs result in changes in the amounts expensed as a component of amortization of DAC in the period in which the revision is made. This is commonly known as "DAC unlocking".

For quantification of the impact of these estimates and assumptions, see the Operations and Forward-looking Statements and Risk Factors sections of the MD&A.

RESERVE FOR LIFE-CONTINGENT CONTRACT BENEFITS ESTIMATION Long-term actuarial assumptions of future investment yields, mortality, morbidity, policy terminations and expenses are used when estimating the reserve for life-contingent contract benefits. These assumptions, which for traditional life insurance are applied using the net level premium method, include provisions for adverse deviation and generally vary by such characteristics as type of coverage, year of issue and policy duration. Future investment yield assumptions are determined at the time the policy is issued based upon prevailing investment yields as well as estimated reinvestment yields. Mortality, morbidity and policy termination assumptions are based on our experience and industry experience prevailing at the time the policies are issued. Expense assumptions include the estimated effects of inflation and expenses to be incurred beyond the premium-paying period.

For further discussion of these policies see Note 8 of the consolidated financial statements and the Forward-looking Statements and Risk Factors section of the MD&A.

OPERATIONS

OVERVIEW AND STRATEGY We are a leading provider of life insurance, annuities and other financial services to a broad spectrum of individual and institutional customers. Our mission is to assist financial services professionals in meeting their clients' financial protection, savings and retirement needs by providing top-tier products delivered with reliable and efficient service.

We will pursue the following to grow our business organically: develop focused, top-tier products; deepen distribution partner relationships; improve our cost structure; and implement a more systematic risk management program. The Company also leverages the strength of the Allstate brand name across products and distribution channels. We intend to grow this business through a combination of organic growth, selective acquisitions and expanding profitable distribution relationships.

Our individual retail product line includes a wide variety of financial protection, savings and retirement products aimed at serving the financial needs of our customers. Individual retail products include traditional life, interest-sensitive life, variable life and long-term care insurance, and both variable and fixed annuities. Individual retail products are sold through a variety of distribution channels including Allstate exclusive agencies, independent agents (including master brokerage agencies), financial institutions and broker/dealers. Our institutional product line consists primarily of funding agreements sold to entities that issue medium-term notes to institutional investors.

PREMIUMS AND CONTRACT CHARGES Premiums represent revenues generated from traditional life, immediate annuities with life contingencies and other insurance products that have significant mortality or morbidity risk. Contract charges are revenues generated from interest-sensitive life products, variable annuities, fixed annuities and other savings products for which deposits are classified as contractholder funds or separate accounts liabilities. Contract charges are assessed against the contractholder account values for maintenance, administration, cost of insurance and surrender prior to contractually specified dates. As a result, changes in contractholder funds and separate accounts liabilities are considered in the evaluation of growth and as indicators of future levels of revenues.

The following table summarizes premiums and contract charges by product.

(IN MILLIONS)	2003	2002	2001
PREMIUMS			
Traditional life	$ 388	$ 403	$ 446
Immediate annuities with life contingencies	413	416	333
Other	158	204	267
TOTAL PREMIUMS	959	1,023	1,046
CONTRACT CHARGES			
Interest-sensitive life	618	597	558
Fixed annuities	37	32	36
Variable annuities	206	212	217
Institutional products	8	6	5
Other	3	6	5
TOTAL CONTRACT CHARGES	872	853	821
TOTAL PREMIUMS AND CONTRACT CHARGES	$ 1,831	$ 1,876	$ 1,867

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The following table summarizes premiums and contract charges by distribution channel.

(IN MILLIONS)	2003	2002	2001
PREMIUMS			
Allstate agencies	$ 226	$ 229	$ 235
Specialized brokers	390	415	333
Independent agents	60	52	71
Direct marketing	283	327	407
TOTAL PREMIUMS	959	1,023	1,046
CONTRACT CHARGES			
Allstate agencies	440	429	381
Specialized brokers	30	25	24
Independent agents	212	202	210
Financial institutions and broker/dealers	187	197	206
Direct marketing	3	-	-
TOTAL CONTRACT CHARGES	872	853	821
TOTAL PREMIUMS AND CONTRACT CHARGES	$ 1,831	$ 1,876	$ 1,867

Total premiums decreased 6.3% in 2003 compared to 2002. The decrease was primarily the result of the discontinuance of our direct response business and lower traditional life and immediate annuity premium. The decline in premiums from our direct response business reflects management actions over the past two years to discontinue this business. The decline in traditional life premium reflects a shift in

product sales from traditional whole life policies to term insurance, which has lower premiums and where we utilize more ceded reinsurance. The decline in immediate annuities with life contingencies was a result of underwriting actions to reduce the size of certain types of individual contracts sold in 2003.

Total premiums were $1.02 billion in 2002 compared to $1.05 billion in 2001. The decrease was due to declines in traditional life and other insurance products, partially offset by increases in immediate annuities with life contingencies. The decline in traditional life premiums was primarily related to the implementation of a reinsurance agreement on January 1, 2002 that ceded our direct response credit life insurance products and, to a lesser extent, a shift in product sales from traditional whole life insurance to term.

Contract charges increased 2.2% to $872 million in 2003 compared to $853 million in 2002. The increase was due to higher interest-sensitive life contract charges resulting from in-force business growth, partially offset by lower variable annuity contract charges, which resulted from lower average variable annuity account balances during the period. Variable annuity contract charges, as a percent of average separate account values, increased to 166 basis points in 2003 from 163 basis points in 2002 as a result of increases in benefit rider fee rates and utilization by contractholders.

Contract charges increased 3.9% in 2002 compared to 2001 as contract charges on new sales of interest-sensitive life products more than offset a decline from variable annuities. Variable annuity contract charges declined due to lower average account values during 2002 as poor equity market performance more than offset growth from deposits during the year.

Contractholder funds represent interest-bearing liabilities arising from the sale of individual products, such as interest-sensitive life, fixed annuities and institutional products, such as funding agreements. The balance of contractholder funds is equal to the cumulative deposits received and interest credited to the contractholder less cumulative contract maturities, benefits, surrenders, withdrawals and contract charges for mortality or administrative expenses.

The following table shows the changes in contractholder funds.

(IN MILLIONS)	2003	2002	2001
CONTRACTHOLDER FUNDS, BEGINNING BALANCE	$ 38,858	$ 32,301	$ 27,676
DEPOSITS			
Fixed annuities (immediate and deferred)	5,263	4,965	3,156
Institutional products	2,713	1,873	2,692
Interest-sensitive life	972	867	818
Variable annuity and life deposits allocated to fixed accounts	893	1,212	1,194
TOTAL DEPOSITS	9,841	8,917	7,860
INTEREST CREDITED	1,764	1,691	1,670
MATURITIES, BENEFITS, WITHDRAWALS AND OTHER ADJUSTMENTS			
Benefits and withdrawals	(2,692)		

(2,522)
(2,462)
Maturities of
institutional
products
(2,163)
(1,056)
(1,192)
Contract
charges (561)
(520) (490)
Net transfers
to separate
accounts
(416) (474)
(1,024) Fair
value
adjustments
for
institutional
products 131
363 95 Other
adjustments
152 158 168 -
--------- ---
------- -----
----- TOTAL
MATURITIES,
BENEFITS,
WITHDRAWALS
AND OTHER
ADJUSTMENTS
(5,549)
(4,051)
(4,905) -----
----- -------
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-
CONTRACTHOLDER
FUNDS, ENDING
BALANCE $
44,914 $
38,858 $
32,301
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==========
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Contractholder funds increased 15.6% in 2003 compared to 2002, and average contractholder funds increased 17.7% in 2003 compared to 2002, due to significant increases in institutional product and fixed annuity deposits. Fixed annuity deposits increased 6.0% over 2002 due to competitive pricing and our

decision to maintain a market presence despite a challenging interest rate environment. Fixed annuity deposits through our financial institutions distribution channel grew 34% in 2003 compared to 2002. This growth was a result of expanded relationships and consumers' attraction to fixed rate contracts with shorter-term rate guarantees due to volatile equity markets and the uncertainty of a low interest rate environment. This growth was partially offset by a decline in fixed annuities sold through our independent agencies distribution channel where longer-term interest rate guarantees are generally favored. As a result of the low interest rate environment during 2003, we introduced fixed annuity contracts with lower guaranteed crediting rates. Institutional products deposits increased 44.8% largely due to our assessment of market opportunities.

Benefits and withdrawals increased $170 million in 2003 compared to 2002. Benefits and withdrawals for 2003 represent 6.9% of the beginning of period contractholder funds balance compared to 7.8% in 2002. Institutional product maturities increased $1.11 billion in 2003 as an increasing number of contracts issued in prior years reached their stated maturity dates. $1.91 billion is scheduled to mature in 2004.

Contractholder funds deposits increased in 2002 compared to 2001 due to significant increases in fixed annuity deposits, partially offset by a decline in institutional products. Fixed annuity deposits increased 57.3% over 2001 due to competitive pricing and the introduction of the Allstate(R) Treasury-Linked Annuity, which generated $761 million of deposits in 2002. Institutional deposits decreased 30.4% in 2002, as market conditions at times during the year would not allow us to achieve acceptable pricing returns. Average contractholder funds increased 18.6% in 2002 compared to 2001.

Separate accounts liabilities represent contractholders' claims to the related legally segregated separate accounts assets. Separate accounts liabilities primarily arise from the sale of variable annuity contracts and variable life insurance policies. The following table shows the changes in separate accounts liabilities.

(IN MILLIONS)	2003	2002	2001
SEPARATE ACCOUNTS LIABILITIES, BEGINNING BALANCE	$ 11,125	$ 13,587	$ 15,298
Variable annuity and life deposits	2,284	2,432	2,932
Variable annuity and life deposits allocated to fixed accounts	(893)	(1,212)	(1,194)
Net deposits	1,391	1,220	1,738
Investment results	2,393	(2,167)	(2,262)
Contract charges	(220)	(212)	(190)
Net transfers from fixed accounts	416	474	1,024
Surrenders and benefits	(1,680)	(1,777)	(2,021)
SEPARATE ACCOUNTS LIABILITIES, ENDING BALANCE	$ 13,425	$ 11,125	$ 13,587

Separate accounts liabilities increased $2.30 billion during 2003 compared to 2002 reflecting a significant improvement in investment results and net deposits. The increase in variable annuity net deposits resulted from the increasing attractiveness of the separate accounts equity investment funds following improved equity market performance and the introduction of the Allstate(R) Advisor variable annuity product. Allstate Advisor is a multi-manager variable annuity that offers funds from four mutual fund families. In volatile and uncertain equity markets, variable annuity contractholders often allocate a significant portion of their initial variable annuity contract deposit into a fixed rate investment option. This allows contractholders to transfer funds to separate accounts equity investment funds over time and to purchase their equity investment fund shares at multiple fund price levels. This is commonly referred to as dollar cost averaging. The level of this activity is reflected above in the deposits allocated to the fixed accounts, while all other transfer activity between the fixed and separate accounts investment options is reflected in net transfers from fixed accounts. The liability for the fixed portion of variable annuity contracts is reflected in contractholder funds.

Separate accounts liabilities decreased $2.46 billion during 2002 compared to 2001, reflecting the significant decline in equity markets and the resulting substantial decrease in variable annuity net deposits during the year.

NET INVESTMENT INCOME increased 3.5% in 2003 compared to 2002 and 5.1% in 2002 compared to 2001. The increases were due to higher portfolio balances during the year as investment income on positive cash

flows from product sales and deposits was mostly offset by lower portfolio yields. Investment balances as of December 31, 2003, excluding unrealized net capital gains, increased 14.5% from December 31, 2002 and increased 16.0% as of December 31, 2002 compared to December 31, 2001. The lower portfolio yields were primarily due to purchases of fixed income securities with yields lower than the current portfolio average.

During 2003 we reclassified periodic settlements and accruals on derivative instruments used for economic hedging purposes but categorized as "non-hedge" for accounting purposes, to realized capital gains and losses so that they are reported consistently with the corresponding fair value adjustments on these instruments. The reclassifications decreased net investment income $22 million, $5 million and $6 million for the years ended December 31, 2003, 2002 and 2001, respectively.

NET INCOME analysis is presented in the following table.

(IN MILLIONS)	2003	2002	2001
INVESTMENT MARGIN			
Life insurance	$ 171	$ 186	$ 228
Annuities	546	505	408
Institutional products	107	107	77
Total investment margin	824	798	713
MORTALITY MARGIN			
Life insurance	458	488	481
Annuities	(112)	(67)	(56)
Total mortality margin	346	421	425
Maintenance charges	328	331	336
Surrender charges	79	75	77
Gross margin	1,577	1,625	1,551
Amortization of DAC	(433)	(416)	

(348) Operating
costs and
expenses (493)
(475) (416)
Income tax
expense (233)
(209) (260)
Realized
capital gains
and losses,
after-tax (54)
(274) (135) DAC
amortization
expense on
realized
capital gains
and losses,
after-tax (30)
(1) (11)
Reclassification
of periodic
settlements and
accruals on
non-hedge
derivative
instruments,
after-tax (15)
(3) (4) Loss on
disposition of
operations,
after-tax (28)
(2) (3)
Cumulative
effect of
change in
accounting
principle,
after-tax (13)
-- (6) --------
-- ---------- -
--------- Net
income $ 278 $
245 $ 368
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INVESTMENT MARGIN represents the excess of investment income earned over interest credited to policyholders and contractholders and interest expense. Investment margin includes periodic settlements and accruals on derivative instruments used for economic hedging purposes but categorized as "non-hedge" for accounting purposes that are included in realized capital gains and losses on the Consolidated Statements of Operations and Comprehensive Income. Investment margin increased 3.3% in 2003 compared to 2002 due to a 15.6% increase in contractholder funds and actions to reduce crediting rates where possible, partially offset by the decline in the portfolio yield of fixed income securities. For fixed annuities and life products for which we have the ability to modify crediting rates, the weighted average interest crediting rate was approximately 70 and 140 basis points above the long-term underlying guaranteed rate at December 31, 2003 and December 31, 2002, respectively. The yield decline on the assets that support our capital, traditional life or other products for which the Company does not have the

ability to modify crediting rates also had a significant negative impact on the investment margin during the year.

The investment margin increased 11.9% in 2002 compared to 2001. The increase was primarily attributable to a 20.3% increase in contractholder funds. The impact of this growth was partially offset by a decline in portfolio yields from lower market interest rates affecting the yield on the investment of cash flows from operations and investments, and a shift to sales of savings products with lower investment margins, such as market value adjusted annuities ("MVAA") and funding agreements that have lower capital requirements and cash flow variability.

The following table summarizes the annualized weighted average investment yield, interest crediting rates and investment spreads during 2003, 2002 and 2001.

	WEIGHTED AVERAGE INVESTMENT YIELD			WEIGHTED AVERAGE INTEREST CREDITING RATE			WEIGHTED AVERAGE INVESTMENT SPREADS		
	2003	2002	2001	2003	2002	2001	2003	2002	2001
Interest-sensitive life	6.9%	7.2%	7.6%	4.9%	5.1%	5.2%	2.0%	2.1%	2.4%
Fixed annuities - deferred	6.4	7.1	7.3	4.6	5.2	5.4	1.8	1.9	1.9
Fixed annuities - immediate	7.9	8.2	8.5	7.1	7.2	7.5	0.8	1.0	1.0
Institutional	3.5	4.3	6.1	2.5	3.4	5.2	1.0	0.9	0.9
Investments supporting capital, traditional life and other products	6.6	7.1	7.8	N/A	N/A	N/A	N/A	N/A	N/A

The following table summarizes the liabilities as of December 31 for these contracts and policies.

(IN MILLIONS)	2003	2002	2001
Interest-sensitive life	$ 6,352	$ 5,923	$ 5,426
Fixed annuities - deferred	25,600	21,147	17,185
Fixed annuities - immediate			

	10,099	9,381	8,241
Institutional	9,380	8,613	7,517
	51,431	45,064	38,369
Life-contingent contracts	3,206	2,874	2,122
FAS 133 market value adjustment	559	426	69
Ceded reserves and other	198	227	365
Total contractholder funds and reserve for life-contingent contract benefits	$ 55,394	$ 48,591	$ 40,925

MORTALITY MARGIN, which represents premiums and cost of insurance contract charges less related policy benefits, was $346 million in 2003, reflecting a $75 million or 17.8% decline compared to 2002. An increase in guaranteed minimum death benefits ("GMDBs") on variable annuity contracts in 2003 compared to 2002 represents $30 million of the $75 million decline. The remainder was due to a larger number of life claims in the first quarter of 2003, poor mortality results on certain closed blocks of business and the effect of the discontinuance of direct response non-life credit insurance, partially offset by higher mortality margin from growth of interest-sensitive life product sales. In 2003, GMDB payments were $83 million, net of reinsurance, hedging results and other contractual arrangements ("net GMDB payments"), compared to $53 million and $31 million in 2002 and 2001, respectively. While 2003 net GMDB payments were higher than in 2002, improved equity market performance during 2003 resulted in sequential quarterly reductions in gross GMDB payments. Direct response non-life credit insurance generated a mortality margin of $2 million and $7 million in 2003 and 2002, respectively. The mortality margin was comparable in 2002 and 2001 as increased contract charges from interest-sensitive life growth were offset by increased policy benefits and net GMDB payments.

AMORTIZATION OF DAC increased 4.1% during 2003 compared to 2002. The increase was primarily due to in force business growth, partially offset by decreased amortization from lower gross margins on variable annuities and certain fixed annuities. Amortization of DAC increased 19.5% in 2002 compared to 2001,

primarily due to higher DAC unlocking and growth of business in force. Net DAC unlocking totaled $89 million, $94 million and $2 million in 2003, 2002 and 2001, respectively.

We performed our annual comprehensive evaluation of DAC assumptions in the first quarter of 2003 and concluded that, due to sustained poor performance of the equity markets coupled with an expectation of moderate future performance due to continuing weakness in the U.S. economy and uncertainty in the geopolitical environment, it was no longer reasonably possible that variable annuity fund returns would revert to the expected long-term mean within the time horizon used in our reversion to the mean model. As a result, we unlocked the DAC assumptions for all savings products, including variable and fixed annuities, and interest-sensitive life products, to be consistent across all product lines.

The 2003 unlocking of DAC assumptions included $124 million for variable annuities, partially offset by the effect of favorable investment margins on fixed annuities and favorable persistency on interest-sensitive life products. The most significant assumption change involved resetting the variable annuity reversion to the mean calculation, such that future equity market performance during the five year reversion period was reduced from 13.25% after fees to the long-term assumed return of 8% after fees.

The changes in the DAC asset are summarized in the following tables.

(IN MILLIONS)	BEGINNING BALANCE DECEMBER 31, 2002	ACQUISITION COSTS DEFERRED	AMORTIZATION CHARGED TO INCOME	AMORTIZATION (ACCELERATION) DECELERATION CHARGED TO INCOME (1)	EFFECT OF UNREALIZED CAPITAL GAINS AND LOSSES	ENDING BALANCE DECEMBER 31, 2003
Traditional life	$ 677	$ 78	$ (66)	$ --	$ --	$ 689
Interest-sensitive life	1,133	182	(124)	16	14	1,221
Variable annuities	834	143	(36)	(124)	(51)	766
Investment contracts	183	314	(141)	19	71	446
Other	88	15	(23)	--	--	80
Total	$ 2,915	$ 732	$ (390)	$ (89)	$ 34	$ 3,202

AMORTIZATION
BEGINNING
(ACCELERATION)
EFFECT OF
ENDING
BALANCE
ACQUISITION
AMORTIZATION
DECELERATION

	BALANCE DECEMBER 31, 2001	COSTS DEFERRED	CHARGED TO INCOME	CHARGED TO INCOME (1)	UNREALIZED CAPITAL GAINS AND LOSSES	BALANCE DECEMBER 31, 2002
Traditional life	$ 659	$ 88	$ (70)	$ --	$ --	$ 677
Interest-sensitive life	1,131	184	(128)	(6)	(48)	1,133
Variable annuities	858	116	(25)	(120)	5	834
Investment contracts	265	251	(78)	32	(287)	183
Other	84	27	(23)	--	--	88
Total	$ 2,997	$ 666	$ (324)	$ (94)	$ (330)	$ 2,915

(1) Included as a component of Amortization of DAC on the Consolidated Statements of Operations and Comprehensive Income.

We believe that as a result of the DAC unlocking performed in 2003, the variable annuity DAC asset is appropriately valued for the current economic environment. With moderate movements in the equity markets, the likelihood of future DAC unlocking is substantially reduced since the projected return in the mean reversion period is no longer at the maximum.

OPERATING COSTS AND EXPENSES increased 3.8% in 2003 compared to 2002. The following table summarizes operating costs and expenses.

(IN MILLIONS)	2003	2002	2001
Non-deferrable acquisition costs	$ 169	$ 136	

			$ 146
Other operating costs and expenses	324	339	270
Total operating costs and expenses	$ 493	$ 475	$ 416

The increase in total operating costs and expenses in 2003 compared to 2002 was primarily due to higher non-deferrable acquisition costs such as renewal and annual trail commissions. Other operating costs and expenses in 2003 compared to 2002 decreased as higher employee benefit and technology related costs were more than offset by lower litigation expense.

Total operating costs and expenses increased 14.2% during 2002 compared to 2001 due to investments in technology, increased employee related benefits, advertising costs and litigation expenses.

Adjustments to prior year tax liabilities resulted in net unfavorable adjustments to net income of $11 million in 2003 compared with net favorable adjustments of $39 million in 2002.

REINSURANCE CEDED We enter into reinsurance agreements with unaffiliated carriers to limit our risk of mortality losses. For life insurance policies, depending upon the issue year and product, we may cede 90%, 80% or 60% of the mortality risk. As of December 31, 2003, 46% of our face amount of life insurance in force is reinsured. Additionally, we cede 100% of the morbidity risk on our long-term care contracts. Since 1998, we have ceded the mortality risk on new life contracts that exceed $2 million per individual, whereas prior to 1998, we ceded mortality risk in excess of specific amounts up to $1 million per life for individual coverage. Also, on certain in-force variable annuity contracts we cede 100% of the mortality and certain other risks related to product features. We retain primary liability as a direct insurer for all risks ceded to reinsurers.

The impacts of reinsurance on our reserve for life insurance policy benefits at December 31 are summarized in the following table.

REINSURANCE RECOVERABLE ON PAID AND UNPAID CLAIMS, NET (IN MILLIONS)	2003	2002
Life insurance	$ 823	$ 729
Long-term care	161	97
Other	201	220
Total	$ 1,185	$ 1,046

Estimating amounts of reinsurance recoverables is impacted by the uncertainties involved in the establishment of reserves.

Developments in the insurance industry have recently led to a decline in the financial strength of some of our reinsurance carriers, causing amounts recoverable from them to be considered a higher risk. There has also been recent consolidation activity between reinsurers in the industry, which causes reinsurance risk across the industry to be concentrated among fewer companies. Additionally, one of our primary reinsurers has announced its intention to no longer assume life reinsurance risks. As a result, we plan to increase our retention of term life insurance and evaluate alternative reinsurance structures.

Our reinsurance recoverables, summarized by the reinsurers' Standard & Poor's financial strength ratings as of December 31, are shown in the following table. In certain cases, these ratings refer to the financial strength of the affiliated group or parent company of the reinsurer.

(IN MILLIONS)	2003		2002	
	REINSURANCE RECOVERABLE	%	REINSURANCE RECOVERABLE	%
AAA	$ 21	1.8%	$ 1	0.1%
AA+	-	-	291	27.8
AA	408	34.4	337	32.2
AA-	265	22.4	365	34.9
A+	283	23.9	1	0.1
A	1	-	4	0.4
A-	168	14.2	-	-
Other	39	3.3	47	4.5
Total	$ 1,185	100%	$ 1,046	100%

We continuously monitor the creditworthiness of reinsurers in order to determine our risk of recoverability on an individual and aggregate basis, and a provision for uncollectible reinsurance is recorded if needed. At December 31, 2003, there were no reinsurance recoverable amounts that were greater than 60 days past due and we did not have an allowance established for them. No amounts have been deemed unrecoverable in the three-years ended December 31, 2003.

ALIC's insurance subsidiaries are domiciled in Illinois, New York, Arizona and Nebraska. Except for those domiciled in New York and one in Nebraska, ALIC has 100% inter-company reinsurance agreements in place with most of its domestic insurance subsidiaries. With the exception of Allstate Life Insurance Company of New York, which retains substantially all of its business up to its per life limit, only invested assets supporting capital and relating to Separate Accounts remain in these subsidiaries. All significant inter-company transactions have been eliminated in consolidation.

OUTLOOK

- Our ability to grow our investment margin is dependent upon maintaining profitable spreads between investment yields and interest crediting rates, and growing the amount of business in force. As interest rates decrease or remain at historically low levels, we expect a reduction in our investment yields. The amount in which these lower yields will reduce our investment margin is contingent on our ability to lower interest crediting rates on certain interest-sensitive products, which could be limited by market conditions, regulatory minimum rates or contractual minimum rate guarantees, and may not match the timing or magnitude of changes in asset yields. Also, a significant amount of our invested assets are used to support our capital and non-interest-sensitive products, which do not provide this offsetting opportunity. As a result, we expect growth in our investment margin from net new business growth, which also fluctuates in relation to the interest rate environment, to be partially offset by compression in our in-force investment spreads.

- - If equity markets perform at historical norms, we expect to see positive growth in our variable annuity gross margins from increased revenue and lower net GMDB payments on our in-force business. However, improvements or deteriorations in our variable annuity gross margins from changes in equity markets performance creates a proportional increase or decrease in variable annuity amortization of DAC, which will offset a significant portion of the changes in gross margins.
- - Market conditions beyond our control determine the availability and cost of the reinsurance we purchase. To eliminate some of these market concerns, we are expecting to retain more of our mortality risk in 2004. This change will have a diminutive effect on our net income in the short-term, but will provide the foundation to drive increased long-term growth in our life insurance business. Our mortality margins will also be more volatile in the future as we retain and manage more of our mortality risk, which will require increased statutory capital.

INVESTMENTS

An important component of our financial results is the return on our investment portfolio. The investment portfolio is managed based upon the nature of the business and its corresponding liability structure.

OVERVIEW AND STRATEGY The investment strategy is based upon a strategic asset allocation framework that takes into account the need to manage the portfolio on a risk-adjusted spread basis for the underlying contract liabilities and to maximize return on retained capital. Generally, a combination of recognized market, analytical and proprietary modeling is used to achieve a desired asset mix in the management of the portfolio. The strategic asset allocation model portfolio is the primary basis for setting annual asset allocation targets with respect to interest sensitive, illiquid and credit asset allocations as well as limitations with respect to overall below-investment-grade exposure and diversification requirements. On a tactical basis, decisions are made on an option adjusted relative value basis staying within the constraints of the strategic asset allocation framework. We believe asset spread is maximized by selecting assets that perform on a long-term basis and by using trading to minimize the effect of downgrades and defaults. Total return measurement is used on a selective basis where the asset risks are significant (e.g., high yield fixed income securities, convertible bonds). We expect that by employing this strategy we will minimize interest rate market impacts on investment income and provide sustainable investment income over time.

PORTFOLIO COMPOSITION The composition of the investment portfolio at December 31, 2003 is presented in the table below. Also see Notes 2 and 6 to the consolidated financial statements for investment accounting policies and additional information.

	(IN MILLIONS)	PERCENT TO TOTAL
Fixed income securities(1)	$ 51,578	86.0%
Equity securities	164	0.3
Mortgage loans	6,354	10.6
Short-term	765	1.3
Policy loans	686	1.1
Other	442	0.7
Total	$ 59,989	100.0%

(1) Fixed income securities are carried at fair value. Amortized cost basis for these securities was $48.40 billion.

Investments increased to $59.99 billion at December 31, 2003, from $52.67 billion at December 31, 2002. The increase in investments was primarily due to positive cash flows from operating and financing activities and increased funds associated with dollar roll programs.

Investment balances related to collateral increased to $1.92 billion at December 31, 2003, from $1.24 billion at December 31, 2002.

We use different methodologies to estimate the fair value of publicly and non-publicly traded marketable investment securities and exchange traded and non-exchange traded derivative contracts. For a discussion of these methods, see the Application of Critical Accounting Policies section of the MD&A.

The following table shows the investment portfolio, and the sources of its fair value, at December 31, 2003.

(IN MILLIONS)	INVESTMENTS FAIR VALUE	PERCENT TO TOTAL	DERIVATIVE CONTRACTS FAIR VALUE
Value based on independent market quotations	$ 39,971	66.6%	$ (1)
Value based on models and other valuation methods	12,049	20.1	463
Mortgage loans, policy loans, bank loans and certain limited partnership investments, valued at cost, amortized cost and the equity method	7,969	13.3	--
Total	$ 59,989	100.0%	$ 462

FIXED INCOME SECURITIES See Note 6 of the consolidated financial statements for a table showing the amortized cost, unrealized gains, unrealized losses and fair value for each type of fixed income securities for the years ended December 31, 2003 and 2002.

U.S. government and agencies of the U.S. government securities were all rated investment grade at December 31, 2003.

Municipal bonds, including tax-exempt and taxable securities, totaled $1.72 billion and 100.0% were rated investment grade at December 31, 2003. Approximately 30.4% of the municipal bond portfolio was insured by 5 bond insurers and the bonds accordingly have a rating of Aaa or Aa. The municipal bond portfolio at December 31, 2003 consisted of approximately 134 issues from approximately 108 issuers. The largest exposure to a single issuer was less than 6.9% of the municipal bond portfolio. The ultimate obligors of approximately 35.3% of the municipal bond portfolio were corporate entities.

Corporate bonds totaled $30.80 billion and 88.9% were rated as investment grade at December 31, 2003. As of December 31, 2003, the fixed income securities portfolio contained $14.33 billion of privately placed corporate obligations or 46.5% of the total corporate obligations in the portfolio, compared with $12.36 billion at December 31, 2002. The benefits of privately placed securities when compared to publicly issued securities are generally higher yields, improved cash flow predictability through pro-rata sinking funds on many bonds, and a combination of covenant and call protection features designed to better protect the holder against losses resulting from credit deterioration, reinvestment risk and fluctuations in interest rates. A disadvantage of privately placed securities when compared to publicly issued securities is relatively reduced liquidity. At December 31, 2003, 85.5% of the privately placed securities were rated as investment grade.

Foreign government securities totaled $1.59 billion and 91.4% were rated investment grade at December 31, 2003.

Mortgage-backed securities ("MBS") totaled $10.76 billion at December 31, 2003. In our MBS portfolio, the credit risk is mitigated due to the fact that 46.2% of the portfolio includes securities that were issued by, or have underlying collateral that is guaranteed by, U.S. government agencies or U.S. government sponsored entities. The MBS portfolio is also subject to interest rate risk since price volatility and ultimate realized yield are affected by the rate of repayment of the underlying mortgages. We attempt to limit interest rate risk on these securities by investing a portion of the portfolio in securities that provide prepayment protection. At December 31, 2003, approximately 37.0% of the MBS portfolio was invested in planned amortization class bonds or the equivalent. Though these security types offer greater relative prepayment protection than other MBS securities, the degree of protection has been limited in this interest rate environment. Based on market conditions and potential changes in portfolio management objectives, the value of this protection and significance of these holdings relative to the entire portfolio may be reduced in future periods.

Asset-backed securities ("ABS") totaled $3.43 billion at December 31, 2003. Our ABS portfolio is subject to credit and interest rate risk. Credit risk is mitigated by monitoring the performance of the collateral. Approximately 55.6% of the ABS portfolio had a Moody's rating of Aaa or a Standard & Poor's ("S&P") rating of AAA, the highest rating category. The ABS portfolio is also subject to interest rate risk since the price volatility and ultimate realized yield are affected by the rate of repayment of the underlying assets. Approximately 29.9% of the ABS portfolio is invested in securitized credit card receivables. The

remainder of the portfolio is primarily backed by securitized home equity, manufactured housing and auto loans.

At December 31, 2003, 92.8% of the consolidated fixed income securities portfolio was rated investment grade, which is defined as a security having a rating from The National Association of Insurance Commissioners ("NAIC") of 1 or 2; a Moody's equivalent rating of Aaa, Aa, A or Baa; an S&P equivalent rating of AAA, AA, A or BBB; or a comparable internal rating.

The following table summarizes the credit quality of the fixed income securities portfolio at December 31, 2003.

(IN MILLIONS)

NAIC
MOODY'S,
S&P FAIR
PERCENT
RATING OR
EQUIVALENT
VALUE TO
TOTAL -----
- ---------
------ ----
-------- --
----
1 Aaa/Aa/A

$ 32,338
62.7% 2 Baa
15,546 30.1
3 Ba 2,265
4.4 4 B
1,141 2.2 5
Caa or
lower 191
0.4 6 In or
near
default 97
0.2 -------
----- -----

Total $
51,578
100.0%
============
============

EQUITY SECURITIES Equity securities include limited partnership interests, common stocks and non-redeemable preferred stocks. The equity securities portfolio was $164 million at December 31, 2003 compared to $183 million in 2002. Gross unrealized gains totaled $4 million at December 31, 2003 and December 31, 2002. There were no unrealized losses at December 31, 2003 compared to $12 million at December 31, 2002.

UNREALIZED GAINS AND LOSSES See Note 6 of the consolidated financial statements for further disclosures regarding unrealized losses on fixed income and equity securities and factors considered in determining that they are not other than temporarily impaired. The unrealized net capital gains on fixed income and equity securities at December 31, 2003 were $3.18 billion, an increase of $107 million or 3.5% since December 31, 2002. Gross unrealized losses were primarily concentrated in the corporate fixed income portfolios and were comprised of securities in the following sectors.

GROSS
UNREALIZED
(IN MILLIONS)
AMORTIZED ---

FAIR COST
GAINS LOSSES
VALUE -------
---- --------
--- ---------
-- ----------
- AT DECEMBER
31, 2003
Corporate:
Consumer
goods
(cyclical and
non-cyclical)
$ 5,369 $ 318
$ (32) $
5,655 Public
utilities
4,520 526 (7)
5,039 Banking
3,961 266
(41) 4,186
Capital goods
3,071 176
(17) 3,230
Basic
industry
2,653 143
(26) 2,770
Communications
2,350 174 (6)
2,518
Financial
services
2,178 135 (5)
2,308 Energy

	1,849	97	(11)	1,935
Transportation	1,265	93	(32)	1,326
Other	1,209	157	(3)	1,363
Technology	441	30	(3)	468
Total corporate fixed income portfolio	28,866	2,115	(183)	30,798
U.S. government and agencies	2,519	688	(2)	3,205
Municipal	1,675	60	(18)	1,717
Foreign government	1,302	287	--	1,589
Mortgage-backed securities	10,540	269	(49)	10,760
Asset-backed securities	3,423	46	(41)	3,428
Redeemable preferred stock	76	6	(1)	81
Total fixed income securities	$ 48,401	$ 3,471	$ (294)	$ 51,578

The banking, consumer goods, transportation, and basic industry sectors had the highest concentration of unrealized losses in our corporate fixed income securities portfolio at December 31, 2003. The gross unrealized losses in these sectors are primarily company specific or interest rate related. While we expect eventual recovery of these securities and the related sectors, we included every security in our portfolio monitoring process at December 31, 2003.

The following table shows the composition by credit quality of the fixed income securities with gross unrealized losses at December 31, 2003.

(IN MILLIONS)

NAIC
MOODY'S,
S&P OR
UNREALIZED
PERCENT
FAIR
PERCENT
RATING
EQUIVALENT
LOSS TO
TOTAL
VALUE TO

TOTAL

1	Aaa/Aa/A	$ (154)	52.4%	$ 6,342	71.3%
2	Baa	(67)	22.8	1,874	21.1
3	Ba	(24)	8.1	374	4.2
4	B	(27)	9.2	194	2.2
5	Caa or lower	(12)	4.1	61	0.7
6	In or near default	(10)	3.4	43	0.5
	Total	$ (294)	100.0%	$ 8,888	100.0%

The table above includes redeemable preferred securities with a fair value of $20 million and an unrealized loss of $1 million. It also includes 56 securities that have not yet received an NAIC rating, for which we have assigned a rating based on an analysis similar to that used by the NAIC, with a fair value totaling $755 million and an unrealized loss of $10 million. Due to lags between the funding of an investment, processing of final legal documents, filing with the Securities Valuation Office of the NAIC ("SVO"), and rating by the SVO, we will always have a small number of securities that have a pending rating.

At December 31, 2003, $221 million, or 75.2%, of the gross unrealized losses were related to investment grade fixed income securities. Unrealized losses on investment grade securities principally relate to changes in interest rates or changes in sector-related credit spreads since the securities were acquired.

As of December 31, 2003, $73 million of the gross unrealized losses were related to below-investment-grade fixed income securities. Of this amount, 48.0% was in a significant unrealized loss position (greater than or equal to 20% of amortized cost) for six or more consecutive months prior to December 31, 2003. Included among the securities that are rated below investment grade are both public and privately placed high-yield bonds and securities that were purchased at investment grade but have since been downgraded. We mitigate the credit risk of investing in below-investment-grade fixed income securities by limiting the percentage of our fixed income portfolio invested in such securities and through diversification of the portfolio.

The scheduled maturity dates for fixed income securities in an unrealized loss position at December 31, 2003 is shown below. Actual maturities may differ from those scheduled as a result of prepayments by the issuers.

UNREALIZED PERCENT FAIR PERCENT (IN MILLIONS) LOSS TO TOTAL VALUE TO TOTAL

Due in one year or less	$ (4)	1.4%	$ 33	0.4%
Due after one year through five years	(44)	15.0	684	7.7
Due after five years through ten years	(63)	21.4	1,973	22.2
Due after ten years	(93)	31.6	2,211	24.9
Mortgage- and asset-backed securities(1)	(90)	30.6	3,987	44.8
Total	$ (294)	100.0%	$ 8,888	100.0%

(1) Because of the potential for prepayment, mortgage- and asset-backed securities are not categorized based on their contractual maturities.

PORTFOLIO MONITORING We have a comprehensive portfolio monitoring process to identify and evaluate fixed income and equity securities whose carrying value may be other than temporarily impaired. The process includes a quarterly review of all securities using a screening process to identify those securities whose fair value compared to amortized cost for fixed income securities or cost for equity securities is below established thresholds for certain time periods, or which are identified through other monitoring criteria such as ratings downgrades or payment defaults. The securities identified, in addition to other securities for which we may have concern, are evaluated based on facts and circumstances for inclusion on our watch-list. The watch-list is reviewed in detail to determine whether any other than temporary impairment exists.

The unrealized loss balance for fixed income and equity securities can be further segmented into the following four categories of securities, with the unrealized net loss in each category at December 31, 2003 listed in parenthesis:

(i) Securities with an unrealized loss less than 20% of amortized cost for fixed income securities or cost for equity securities ($220 million of unrealized loss);

(ii) Securities with an unrealized loss greater than or equal to 20% of amortized cost for fixed income securities or cost for equity securities for a period of less than six consecutive months prior to December 31, 2003 ($31 million of unrealized loss);

(iii) Securities with an unrealized loss greater than or equal to 20% of amortized cost for fixed income securities or cost for equity securities for a period of six or more consecutive months, but less than 12 consecutive months prior to December 31, 2003 ($30 million of unrealized loss); and

(iv) Securities with an unrealized loss greater than or equal to 20% of amortized cost for fixed income securities or cost for equity securities for twelve or more consecutive months prior to December 31, 2003 ($13 million of unrealized loss).

Categories (i) and (ii) have generally been adversely affected by the downturn in the financial markets, overall economic conditions, and the market's evaluation of certain sectors. While all of the securities in these categories are monitored for impairment, the degree to which and/or length of time that the securities have been in an unrealized loss position does not suggest that these securities pose a high risk of being other than temporarily impaired. In general, we expect that the fair values of these securities will recover over time.

For category (iii) there were 7 fixed income securities with a fair value of $56 million and $30 million of unrealized loss, with the largest unrealized loss being $7 million. Of the fixed income securities in this category, 5 securities with a fair value of $49 million and an unrealized loss of $22 million were rated as being below investment grade at December 31, 2003.

For category (iv) there were 7 fixed income securities with a fair value of $33 million and $13 million of unrealized loss, with the largest unrealized loss being $5 million. All of these securities were rated as being below investment grade at December 31, 2003.

Whenever we decide that a fixed income security's unrealized loss of 20% or more for at least 36 months or any equity security's unrealized loss of 20% or more for at least 12 months is temporary, we use a process of additional evaluations and management approvals to determine why a write-down is not required.

The following table contains the individual securities as of December 31, 2003, with the largest unrealized losses. No other fixed income or equity security had an unrealized loss greater than 1.0% of the total unrealized loss on fixed income and equity securities:

(IN MILLIONS)	UNREALIZED LOSS	FAIR VALUE	NAIC RATING	UNREALIZED LOSS CATEGORY
State General Obligation for a Pension Fund	$ (8)	$ 92	1	(i)
Shipping & Offshore Engineering	(7)	13	5	(iii)
Foreign Dairy Conglomerate	(7)	13	6	(ii)
Chemical/Plastics Production & Distribution	(5)	15	4	(iii)
Asset Backed Security for Aircraft Leases	(5)	12	3	(iv)
Asset Backed Security for Aircraft Leases	(4)	3	2	(iii)
Asset Backed Security for Aircraft Leases	(4)	4	2	(iii)
Chemical/Plastics Production & Distribution	(4)	6	4	(iii)
Total	$ (44)	$ 158		

We also monitor the quality of our fixed income portfolio, by categorizing certain investments as "problem", "restructured" or "potential problem." Problem fixed income securities are securities in default with respect to principal or interest and/or securities issued by companies that have gone into bankruptcy subsequent to our acquisition of the security. Restructured fixed income securities have rates and terms that are not consistent with market rates or terms prevailing at the time of the restructuring. Potential problem fixed income securities are current with respect to contractual principal and/or interest, but because of other facts and circumstances, we have serious concerns regarding the borrower's ability to pay future principal and interest, which causes us to believe these securities may be classified as problem or restructured in the future.

The following table summarizes problem, restructured and potential problem fixed income securities at December 31.

(IN MILLIONS)	2003			2002		
	AMORTIZED COST	FAIR VALUE	PERCENT OF TOTAL FIXED INCOME PORTFOLIO	AMORTIZED COST	FAIR VALUE	PERCENT OF TOTAL FIXED INCOME PORTFOLIO
Problem	$ 167	$ 155	0.3%	$ 232	$ 218	0.5%
Restructured	32	35	0.1	10	10	--
Potential problem	259	255	0.5	486	423	0.9
Total net carrying value	$ 458	$ 445	0.9%	$ 728	$ 651	1.4%
Cumulative write- downs recognized	$ 228			$ 368		

We have experienced a decrease in our balance of fixed income securities categorized as potential problem as of December 31, 2003 compared to December

31, 2002. The decrease was related primarily to the sale of holdings in this category due to specific developments causing a change in our outlook and intent to hold those securities.

We also evaluated each of these securities through our portfolio monitoring process at December 31, 2003 and recorded write-downs when appropriate. We further concluded that any remaining unrealized losses on these securities were temporary in nature. While these balances may increase in the future, particularly if economic conditions are unfavorable, management expects that the total amount of securities in these categories will remain low relative to the total fixed income securities portfolio.

NET REALIZED CAPITAL GAINS AND LOSSES The following table presents the components of realized capital gains and losses and the related tax effect for the years ended December 31.

(IN MILLIONS)	2003	2002	2001
Investment write-downs	$ (178)	$ (309)	$ (150)
Sales	64	(97)	4
Valuation of derivative instruments	12	(36)	(64)
Settlement of derivative instruments	18	20	3
Realized capital gains and losses, pretax	(84)	(422)	(207)
Income tax benefit	30	148	72
Realized capital gains and losses, after-tax	$ (54)	$ (274)	$ (135)

Investment write-downs during 2003 represent approximately 0.3% of the average total investment portfolio value during the year. For the year ended December 31, 2003, the $64 million in net gains from sales was comprised of gross gains of $254 million and gross losses of $190 million. Gross losses from sales of fixed income and equity securities were $188 million which, combined with investment write-downs on fixed income and equity securities of $174 million, represents total gross realized losses of $362 million for the year ended December 31, 2003. Of the $188 million in gross losses from sales of fixed income and equity securities, $184 million resulted from sales of fixed income securities and $4 million resulted from sales of equity securities.

In 2003, losses from sales were primarily related to routine reductions of exposures to deteriorating credits, reallocation of funds to other investments in a higher interest rate environment and equity portfolio turnover resulting from relative value opportunities. We may sell securities during the period in which fair value has declined below amortized cost for fixed income securities or cost for equity securities. Recognizing in certain situations new factors such as negative developments, subsequent credit deterioration, relative value opportunities, market liquidity concerns and portfolio reallocations can subsequently change our previous intent to continue holding a security.

The ten largest losses from sales of individual securities for the year ended December 31, 2003 totaled $74 million with the largest being $42 million and the smallest being $3 million. Of those losses, six related to securities that were in our unrealized loss categories (iii) or (iv).

Our largest aggregate loss on sales and writedowns by issuer and its affiliates are shown in the following table. No other issuer and its affiliates had an aggregated loss on sales and writedowns greater than 3% of the total gross loss on sales and writedowns on fixed income and equity securities. We have also included in this table the related circumstances giving rise to the losses and a discussion of how those circumstances may have affected other material investments held.

(IN MILLIONS)
FAIR VALUE
DECEMBER 31,
NET AT SALE
LOSS ON
WRITE- 2003
UNREALIZED
("PROCEEDS")
SALE DOWNS
HOLDINGS (1)
GAIN (LOSS) -
----------- -
-------- ----
----- -------
----- -------
----- A U.S.
Government
security
purchased
when interest
rates were at
significant
lows.
Realized
losses were
incurred when
the security
was sold to
reallocate
funds to
other
investments
and interest
rates had
risen since
the date of
purchase. $
633 $ (42) $
-- $ 1 $ -- A
major dairy
company with
global
operations.
The issuer
entered into
insolvency
proceedings
in December
2003. $20
million of
our remaining
holdings are
anticipated
to have

structural superiority in recovery proceedings. The circumstances of this impairment are not expected to have an effect on other holdings in our portfolios. -- -- (24) 30 (7) Major U.S. Airline. The write-down taken in early 2003 reflected a heightened probability of bankruptcy. We hold other securities issued by this company that are fully collateralized and not impaired. Valuations in the industry continue to be under stress. 30 -- (21) 7 (1) Major energy company with a significantly leveraged balance sheet. Our realized losses resulted from sales to reduce our exposure to the holding company. Our current holdings include securities with the operating company subsidiaries that have stable cash flows. The parent company also guarantees an obligation to a counterparty in which we hold a project finance investment. We expect to fully recover

this
investment.
41 (17) -- 28
--
Collateralized
debt
obligation
consisting
primarily of
investment
grade bonds.
The
performance
of the
underlying
collateral
portfolio has
not met
expectations.
-- -- (12) 10
2 -----------
- --------- -
-------- ----
-------- ----
------- Total
$ 704 $ (59)
$ (57) $ 76 $
(6)
============
=========
=========
============
===========

(1) Holdings could include fixed income securities at amortized cost or equity securities at cost.

MORTGAGE LOANS Our $6.35 billion mortgage loans portfolio at December 31, 2003 and $5.88 billion at December 31, 2002, was comprised primarily of loans secured by first mortgages on developed commercial real estate. Geographical and property type diversification are key considerations used to manage our mortgage loan risk.

We closely monitor our commercial mortgage loan portfolio on a loan-by-loan basis. Loans with an estimated collateral value less than the loan balance, as well as loans with other characteristics indicative of higher than normal credit risk, are reviewed by financial and investment management at least quarterly for purposes of establishing valuation allowances and placing loans on non-accrual status. The underlying

collateral values are based upon discounted property cash flow projections or a commonly used valuation method that utilizes a one-year projection of expected annual income divided by an expected rate of return. We had net realized capital losses related to write-downs on mortgage loans of $4 million for the year ended December 31, 2003. There were no realized capital losses related to prepayments and write-downs on mortgage loans for the year ended December 31, 2002, and $1 million for the year ended December 31, 2001.

SHORT-TERM INVESTMENTS Our short-term investment portfolio was $765 million and $839 million at December 31, 2003 and 2002, respectively. We invest available cash balances primarily in taxable short-term securities having a final maturity date or redemption date of one year or less.

We also participate in securities lending, primarily as an investment yield enhancement, with third parties such as brokerage firms. We obtain collateral in an amount equal to 102% of the fair value of the securities and monitor the market value of the securities loaned on a daily basis with additional collateral obtained as necessary. The cash we receive is subsequently invested and an offsetting liability is recorded in other liabilities. At December 31, 2003, the amount of securities lending collateral reinvested in short-term investments had a carrying value of $271 million. This compares to $460 million at December 31, 2002.

MARKET RISK

Market risk is the risk that we will incur losses due to adverse changes in equity, interest, commodity, or currency exchange rates and prices. Our primary market risk exposures are to changes in interest rates and equity prices, although we also have a smaller exposure to changes in foreign currency exchange rates.

The active management of market risk is integral to our results of operations. We may use the following approaches to manage exposure to market risk within defined tolerance ranges: 1) rebalancing existing asset or liability portfolios, 2) changing the character of investments purchased in the future and 3) using derivative instruments to modify the market risk characteristics of existing assets and liabilities or assets expected to be purchased. For a more detailed discussion of our use of derivative financial instruments, see Note 7 to the consolidated financial statements.

OVERVIEW We generate substantial investable funds from our business. In formulating and implementing guidelines for investing funds, we seek to earn returns that enhance our ability to offer competitive rates and prices to customers while contributing to attractive and stable profits and long-term capital growth. Accordingly, our investment decisions and objectives are a function of the underlying risks and product profiles.

Investment guidelines define the overall framework for managing market and other investment risks, including accountability and control over these risk management activities. In addition, the subsidiaries that conduct investment activities follow guidelines that have been approved by their respective boards of directors and that specify the investment limits and strategies that are appropriate given their liquidity, surplus, product, and regulatory requirements. Executive oversight of investment risk management processes is conducted primarily through the boards of directors and investment committees of the subsidiaries conducting investment activities. Administration and detailed managerial oversight of investment risk, including market risk, is provided through the credit and risk management committee ("CRMC"). The Corporation also has an enterprise-wide committee called the Enterprise Risk Council ("ERC") that is responsible for assessing risks, including market and other investment risks, on an integrated basis across subsidiaries and organizations.

We manage our exposure to market risk through the use of asset allocation limits and duration limits, through the use of simulation and, as appropriate, through the use of stress tests. We have asset allocation limits that place restrictions on the total funds that may be invested within an asset class. We have duration limits on our investment portfolios and, as appropriate, on individual components of these portfolios. These duration limits place restrictions on the amount of interest rate risk that may be taken. Comprehensive day-to-day management of market risk within defined tolerance ranges occurs as portfolio managers buy and sell within their respective markets based upon the acceptable boundaries established by the investment guidelines.

INTEREST RATE RISK is the risk that we will incur an economic loss due to adverse changes in interest rates. This risk arises from many of our primary activities, as we invest substantial funds in interest-sensitive assets and carry significant interest-sensitive liabilities.

We manage the interest rate risk in our assets relative to the interest rate risk in our liabilities. One of the measures used to quantify this exposure is duration. Duration measures the sensitivity of the assets and liabilities to changes in interest rates. For example, if interest rates increase 100 basis points, the fair value of an asset with a duration of 5 is expected to decrease in value by approximately 5%. At December 31, 2003, the difference between our asset and liability duration was approximately 0.78, compared to a (0.09) gap at December 31, 2002. A positive duration gap indicates that the fair value of our assets is more sensitive to interest rate movements than the fair value of our liabilities.

We seek to invest premiums, contract charges and deposits to generate future cash flows that will fund future claims, benefits and expenses, and that will earn stable margins across a wide variety of interest rate and economic scenarios. In order to achieve this objective and limit exposure to interest rate risk, we adhere to a philosophy of managing the duration of assets and related liabilities. This philosophy includes using interest rate swaps, futures, forwards, caps and floors to reduce the interest rate risk resulting from unintended duration mismatches between assets and liabilities, and financial futures and other derivative instruments to hedge the interest rate risk related to anticipated purchases and sales of investments and product sales to customers.

We pledge and receive collateral on certain types of derivative contracts. For futures and option contracts traded on exchanges, we have pledged securities as margin deposits totaling $34 million as of December 31, 2003. For over-the-counter derivative transactions involving interest rate swaps, foreign currency swaps, interest rate caps, interest rate floor agreements and credit default swaps, master netting agreements are used. These agreements allow us to net payments due for transactions covered by the agreements, and when applicable, we are required to post collateral. As of December 31, 2003, counterparties have posted collateral to us totaling $333 million.

To calculate duration, we project asset and liability cash flows and calculate their net present value using a risk-free market interest rate adjusted for credit quality, sector attributes, liquidity and other specific risks. Duration is calculated by revaluing these cash flows at alternative interest rates and determining the percentage change in aggregate fair value. The cash flows used in this calculation include the expected maturity and repricing characteristics of our derivative financial instruments, all other financial instruments (as described in Note 7 of the consolidated financial statements), and certain other items including interest-sensitive liabilities and annuity liabilities. The projections include assumptions (based upon historical market experience and our experience) that reflect the effect of changing interest rates on the prepayment, lapse, leverage and/or option features of instruments, where applicable. Such assumptions relate primarily to mortgage-backed securities, collateralized mortgage obligations, callable corporate obligations, and fixed rate single and flexible premium deferred annuities.

Based upon the information and assumptions we use in this duration calculation, and interest rates in effect at December 31, 2003, we estimate that a 100 basis point immediate, parallel increase in interest rates ("rate shock") would decrease the net fair value of the assets and liabilities by approximately $641 million, compared to $102 million at December 31, 2002. Additionally, there are $5.42 billion of assets supporting life insurance products such as traditional and interest-sensitive life that are not financial instruments and as a result have not been included in the above estimate. This amount has increased from the $4.85 billion reported at December 31, 2002 due to increases in policies in force. Based on assumptions described above, in the event of a 100 basis point immediate increase in interest rates, these assets would decrease in value by $240 million, compared to a decrease of $185 million at December 31, 2002. The selection of a 100 basis point immediate parallel change in interest rates should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event.

To the extent that conditions differ from the assumptions we used in these calculations, duration and rate shock measures could be significantly impacted. Additionally, our calculations assume that the current relationship between short-term and long-term interest rates (the term structure of interest rates) will remain constant over time. As a result, these calculations may not fully capture the effect of non-parallel changes in the term structure of interest rates and/or large changes in interest rates.

EQUITY PRICE RISK is the risk that we will incur economic losses due to adverse changes in a particular stock, mutual fund, or stock index. At December 31, 2003, we held approximately $43 million in common stocks and $533 million in other securities with equity risk (including primarily convertible securities),

compared to approximately $40 million in common stocks and $551 million in other equity investments at December 31, 2002.

At December 31, 2003, our portfolio of equity instruments had a beta of approximately 0.52, compared to a beta of approximately 0.60 at December 31, 2002. Beta represents a widely used methodology to describe, in mathematical terms, an investment's market risk characteristics relative to the Standard & Poor's 500 Composite Price Index ("S&P 500"). Based on the beta analysis, we estimate that if the S&P 500 decreases by 10%, the fair value of our equity portfolio will decrease by approximately 5.2%. Likewise, we estimate that if the S&P 500 increases by 10%, the fair value of our equity portfolio will increase by approximately 5.2%. Based upon the information and assumptions we used to calculate beta at December 31, 2003, we estimate that an immediate decrease in the S&P 500 of 10% would decrease the net fair value of our equity portfolio identified above by approximately $30 million, compared to $36 million at December 31, 2002. The selection of a 10% immediate decrease in the S&P 500 should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event.

The beta of our equity portfolio was determined by comparing the monthly total returns of the equity portfolio to monthly total returns of the S&P 500 over a three-year historical period. Since beta is historically based, projecting future price volatility using this method involves an inherent assumption that historical volatility and correlation relationships between stocks will not change in the future. Therefore, the illustrations noted above may not reflect our actual experience if future volatility and correlation relationships differ from the historical relationships.

At December 31, 2003 and 2002, we had separate accounts assets with account values totaling $13.43 billion and $11.13 billion, respectively. We earn contract charges as a percentage of these account values. In the event of an immediate decline of 10% in the account values due to equity market declines, we would have earned approximately $21 million and $18 million less in fee income at December 31, 2003 and December 31, 2002, respectively.

Variable annuity contracts sold usually have a GMDB and customers may choose to purchase an enhanced GMDB, guaranteed minimum income benefits ("GMIB") prior to 2004 and beginning in 2004 a TrueReturn(SM) Accumulation Benefit ("GMAB") on certain contracts. These guarantees subject us to additional equity risk because the beneficiary or contractholder may receive a benefit that is greater than the current account value. GMDBs are payable upon death, while

GMIBs are payable on or after the ten-year anniversary of the contract if the contractholder elects to receive a defined stream of payments ("annuitize"). GMABs are payable on a date that is pre-determined by the contractholder, between the eighth and twentieth year of the contract. GMABs guarantee a return of up to 2.5 times (or 250%) of the amount deposited in the contract, depending on the amount of time the contract is in force and adherence to certain fund allocations.

At December 31, 2003 and 2002, the guaranteed value of these death benefits in excess of account values was estimated to be $2.46 billion and $4.07 billion, respectively, net of reinsurance. The decrease in this estimate between periods is attributable to improved equity markets during 2003. In both periods, approximately two-thirds of this exposure is related to the return of deposits guarantee, while the remaining one-third is attributable to a death benefit guarantee greater than the original deposits. In addition to reinsurance for these benefits, we entered into various derivative instruments during 2003 that were intended to offset a portion of 2003 expected death benefit payments and the risk on all future death claims on new business issued on January 1, 2003 and later, and any payments of GMABs.

We estimate the present value of expected future payments for GMDBs for the next 40 quarters to be approximately $145 million at December 31, 2003 compared to $264 million at December 31, 2002. In order to calculate this estimate, we considered the current guarantees outstanding for all contracts that contain GMDBs, the expected fund performance and the assumptions and methodology we use for DAC amortization. The decrease in this estimate at December 31, 2003 is primarily attributable to the equity market improvement during the year. We also estimate the effect on expected future GMDB payments in the event of extreme adverse market conditions. In the event of an immediate decline in account values of 10% due to equity market declines, payments for guaranteed death benefits at December 31, 2003 would increase by an estimated $18 million during the next year. The selection of a 10% immediate decrease should not be construed as our prediction of future market events, but only as an example to illustrate the potential effect on earnings and cash flow of equity market declines as a result of this guarantee. Also, our actual payment experience in the future may not be consistent with the assumptions used in the model.

Included among the GMIB contracts we have sold are contracts that provide the contractholder with the right to annuitize based on the highest account value at any anniversary date or on a guaranteed

earnings rate based on the initial account value over the specified period. The guaranteed benefit feature was first offered in certain of our GMIB products beginning in 1998, with guaranteed benefits available for election by the contractholders beginning in 2008.

We estimate the present value of expected future payments for GMIBs for the next 40 years to be approximately $15 million at December 31, 2003 compared to $16 million at December 31, 2002. In calculating this estimate we considered the current mix of guarantees outstanding, expected fund performance and the assumptions and methodology we use for DAC amortization. The decrease in 2003 is primarily due to improved equity markets in 2003, partially offset by the fact that contractholders are one year closer to being eligible to annuitize. We also estimate the effect on our expected future GMIB payments in the event of extreme adverse market conditions. In the event of an immediate decline of 10% in contractholders' account values as of December 31, 2003 due to equity market declines, there would be no immediate effect on our earnings or cash flow, since these benefits are not payable until at least 2008. The selection of a 10% immediate decrease should not be construed as our prediction of future market events, but only as an example to illustrate the potential effect on earnings and cash flow of equity market declines as a result of this guarantee. As of December 31, 2003 we do not have a reserve established for the GMDBs or GMIBs; however, this will change with the adoption of Statement of Position 03-01 in 2004. See Note 2 of the consolidated financial statements for a discussion of this pending accounting change.

Additional sales of variable annuity contracts will increase our equity risk because of these benefits. An increase in the equity markets above the December 31, 2003 level will increase account values for these contracts, thereby decreasing the risk of the GMDBs, GMIBs, and GMABs being utilized in the future. Likewise, a decrease in the equity markets that causes a decrease in the account values will increase our equity risk because of these benefits.

In addition to our GMDB and GMIB equity risk, at December 31, 2003 and 2002 we had approximately $1.55 billion and $1.36 billion, respectively, in equity-indexed annuity liabilities that provide customers with guaranteed crediting rates based on the price of the S&P 500. We hedge the equity risk associated with these liabilities through the purchase and sale of equity-indexed options, futures, swap futures, and eurodollar futures, maintaining risk within specified value-at-risk limits.

We are also exposed to equity risk in DAC. Fluctuations in the value of the variable annuity and life contract account values due to the equity market affect DAC amortization, because the expected fee income and guaranteed benefits payable are components of the EGP for variable life and annuity contracts. For a more detailed discussion of DAC, see Note 2 to the consolidated financial statements and the Application of Critical Accounting Policies section of the MD&A.

FOREIGN CURRENCY EXCHANGE RATE RISK is the risk that we will incur economic losses due to adverse changes in foreign currency exchange rates. This risk primarily arises from our foreign equity and real estate investments. We also have funding agreement programs and a small amount of fixed income securities that are denominated in foreign currencies, but we use derivatives to hedge the foreign currency risk of these funding agreements and securities.

At December 31, 2003, we had approximately $0.7 million in foreign currency denominated equity securities, compared to $2 million at December 31, 2002.

Based upon the information and assumptions we used at December 31, 2003, we estimate that a 10% immediate unfavorable change in each of the foreign currency exchange rates that we are exposed to would decrease the value of our foreign currency denominated instruments by approximately $0.1 million, compared with an estimated $0.2 million decrease at December 31, 2002. The selection of a 10% immediate decrease in all currency exchange rates should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event. Our currency exposure at December 31, 2003 is diversified across 10 countries, comparable to 11 countries at December 31, 2002. Our largest individual currency exchange exposures at December 31, 2003 were to the French franc (56%) and the British pound (32%). The largest individual currency exchange exposures at December 31, 2002 were to the French franc (53%) and the British pound (26%). Our primary regional exposure is to Western Europe, approximately 97% at December 31, 2003, compared to 98% at December 31, 2002.

The modeling technique we use to report our currency exposure does not take into account correlation among foreign currency exchange rates. Even though we believe it is very unlikely that all of the foreign currency exchange rates that we are exposed to would simultaneously decrease by 10%, we nonetheless stress test our portfolio under this and other hypothetical extreme adverse market scenarios. Our actual

experience may differ from these results because of assumptions we have used or because significant liquidity and market events could occur that we did not foresee.

CAPITAL RESOURCES AND LIQUIDITY

CAPITAL RESOURCES consist of shareholder's equity. The following table summarizes the Company's capital resources at December 31.

(IN MILLIONS)

	2003	2002	2001
Redeemable preferred stock	$ 82	$ 93	$ 90
Common stock, retained income and other shareholder's equity items	5,294	5,217	4,670
Accumulated other comprehensive income	1,053	1,052	637
Total shareholder's equity	$ 6,429	$ 6,362	$ 5,397

SHAREHOLDER'S EQUITY increased in 2003 when compared to 2002, as net income was partially offset by dividends paid to AIC. The balance of redeemable preferred stock declined during 2003 due to the reduction of investment by a strategic alliance partner.

Shareholder's equity increased in 2002 compared to 2001 due to an increase in net unrealized capital gains, additional capital paid-in and retained income.

In 2002, AIC contributed $350 million of capital to maintain our statutory surplus and risk-based capital measures at management's target levels. The need for additional capital was driven primarily by the impact of realized capital losses, new business growth and statutory reserves required for variable annuity GMDBs and GMIBs.

DEBT of $45 million as of December 31, 2003 reflects the impact of the adoption of Financial Accounting Standards Board ("FASB") Interpretation No. 46 ("FIN 46"), which required us to consolidate the debt of a previously unconsolidated investment security. Although we were required to consolidate this security, we have no legal ownership of the assets and no obligation to repay the debt. Moody's and Standard and Poor's have apprised us that the debt associated with this consolidation will be excluded for analytical purposes from the ratio of debt to shareholder's equity for ratings considerations. For more information about FIN 46 see Note 2 of the Consolidated Financial Statements. As of December 31, 2002, we had no outstanding debt.

We have an inter-company loan agreement with the Corporation whereby the amount of inter-company loans available is at the discretion of the Corporation. The maximum amount of loans the Corporation will have outstanding to all its eligible subsidiaries at any given point in time is limited to $1.00 billion. We had no amounts outstanding under the inter-company loan agreement at December 31, 2003 or 2002.

FINANCIAL RATINGS AND STRENGTH The following table summarizes the Company's financial strength ratings at December 31, 2003.

RATING AGENCY	RATING
Moody's Investors Service, Inc.	Aa2 ("Excellent")
Standard & Poor's Ratings Services	AA ("Very Strong")
A.M. Best Company, Inc.	A+ ("Superior")

Our ratings are influenced by many factors including our operating and financial performance, asset quality, liquidity, asset/liability management, overall portfolio mix, financial leverage (i.e., debt), exposure to risks such as catastrophes and the current level of operating leverage. In February 2004, A.M. Best revised the outlook to stable from positive for our insurance financial strength ratings and certain rated subsidiaries and affiliates.

State laws specify regulatory actions if an insurer's risk-based capital ("RBC"), a measure of an insurer's solvency, falls below certain levels. The NAIC has a standard formula for assessing RBC. The formula for calculating RBC for life insurance companies takes into account factors relating to insurance, business, asset and interest rate risks. At December 31, 2003, our RBC and RBC for each of our insurance company subsidiaries was above levels that would require regulatory actions.

The NAIC has also developed a set of financial relationships or tests known as the Insurance Regulatory Information System to assist state regulators in monitoring the financial condition of insurance companies and identifying companies that require special attention or actions by insurance regulatory authorities. The NAIC analyzes financial data provided by insurance companies using prescribed ratios, each with defined "usual ranges". Generally, regulators will begin to monitor an insurance company if its ratios fall outside the usual ranges for four or more of the ratios. If an insurance company has insufficient capital, regulators may act to reduce the amount of insurance it can issue. The ratios of our insurance companies are within these ranges.

LIQUIDITY SOURCES AND USES Our potential sources of funds principally include the following activities.

- Receipt of insurance premiums
- Contractholder fund deposits
- Reinsurance recoveries
- Receipts of principal, interest and dividends on investments
- Sales of investments
- Funds from investment repurchase agreements, securities lending, dollar roll and lines of credit agreements
- Inter-company loans and tax refunds/settlements
- Capital contributions from parent
- Dividends from subsidiaries

Our potential uses of funds principally include the following activities.

- Payment of contract benefits, maturities, surrenders and withdrawals
- Reinsurance cessions and payments
- Operating costs and expenses
- Purchase of investments
- Repayment of investment repurchase agreements, securities lending, dollar roll and lines of credit agreements
- Payment or repayment of inter-company loans
- Capital contributions to subsidiaries
- Dividends to parent

As reflected in our Consolidated Statements of Cash Flows, lower operating cash flows in 2003 compared to 2002 are primarily attributable to a decline in mortality margin, partially offset by an increase in the investment margin. Cash flows in investing activities declined in 2003 as the investment of operating cash flows were offset by lower financing cash flow.

Lower cash flow from financing activities during 2003 reflects an increase in maturities of institutional products and benefits and withdrawals from contractholders' accounts, partially offset by increased deposits received from contractholders. Higher cash provided by financing activities in 2002 reflects increased deposits received from contractholders. For quantification of the changes in contractholder funds, see page 15. A portion of our product portfolio, primarily fixed annuity and interest-sensitive life insurance products, is subject to surrender and withdrawal at the discretion of contractholders. The following table summarizes liabilities for these products by their contractual withdrawal provisions at December 31, 2003. Approximately 13.3% of these liabilities is subject to discretionary withdrawal without adjustment.

(in millions)	2003
Not subject to discretionary withdrawal	$ 10,953
Subject to discretionary withdrawal with adjustments:	
Specified surrender charges(1)	18,662
Market value	9,316
Subject to discretionary withdrawal without adjustments	5,983
Total contractholder funds	$ 44,914

(1) Includes $9.34 billion of liabilities with a contractual surrender charge of less than 5% of the account balance.

To ensure we have the appropriate levels of liquidity, we perform actuarial tests on the impact to cash flows of policy surrenders and other actions under various scenarios.

As of December 31, 2003, the Company had $1.59 billion of putable funding agreements of varying lengths of putable periods ranging from seven to three hundred sixty five days. At December 31, 2003, the weighted average put period was 264 days.

The Corporation has established external sources of short-term liquidity that include lines of credit, dollar rolls and repurchase agreements. In the aggregate, at December 31, 2003, these sources could provide over $2.3 billion of additional liquidity. For additional liquidity, we can issue new insurance contracts, incur additional debt and sell assets from our investment portfolio. The liquidity of the investment portfolio varies by type of investment. For example, $14.33 billion of privately placed corporate obligations that represent 23.8% of the investment portfolio, and $6.35 billion of mortgage loans that represent 10.6% of the investment portfolio, generally are considered to be less liquid than many of our other types of investments, such as our U.S. government and agencies, municipal and public corporate fixed income security portfolios.

We have access to additional borrowing to support liquidity through the Corporation as follows:

- A commercial paper program with a borrowing limit of $1.00 billion to cover short-term cash needs. As of December 31, 2003, there were no borrowings outstanding; however, the outstanding balance fluctuates daily.

- Two primary credit facilities and one additional credit facility totaling $1.20 billion to cover short-term liquidity requirements. These consist of a $575 million five-year revolving line of credit expiring in 2006, a $575 million 364-day revolving line of credit expiring in the second quarter of 2004 and a $50 million one-year revolving line of credit expiring in the third quarter of 2004. The right to borrow under the five-year and 364-day facilities is subject to requirements that are customary for facilities of this size, type and purpose. These requirements are currently being met and we expect to continue to meet them in the future. There were no borrowings under any of these lines of credit during 2003. The total amount outstanding at any point in time under the combination of the commercial paper program and the three credit facilities is limited to $1.20 billion.

- The right of the Corporation to issue up to an additional $2.80 billion of debt securities, equity securities, warrants for debt and equity securities, trust preferred securities, stock purchase contracts and stock purchase units utilizing the shelf registration statement filed with the Securities and Exchange Commission ("SEC") in August 2003.

Certain remote events and circumstances could constrain our or the Corporation's liquidity. Those events and circumstances include, for example, a catastrophe resulting in extraordinary losses, a downgrade in the Corporation's current long-term debt rating of A1 and A+ (from Moody's and Standard & Poor's, respectively) to non-investment grade status of below Baa3/BBB-, a downgrade in AIC's financial strength ratings from Aa2, AA and A+ (from Moody's, Standard & Poor's and A.M. Best, respectively) to below Baa/BBB/A-, or a downgrade in our financial strength ratings from Aa2/AA/A+ (from Moody's, Standard & Poor's and A.M. Best, respectively) to below Aa3/AA-/A-. The rating agencies also consider the interdependence of the Corporation's individually rated entities, and therefore a rating change in one entity could potentially affect the ratings of other related entities.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS Our contractual obligations as of December 31, 2003 and the payments due by period are shown in the following table.

(IN MILLIONS) LESS THAN OVER 5 TOTAL 1 YEAR 1-3 YEARS 4-5 YEARS YEARS -------- ---- ------------ -- ---------- --------- --- ------------ Securities Lending, Dollar Rolls, and Repurchase Agreements(1) $ 1,585 $ 1,585 $ -- $ -- $ -- Guaranteed Investment Contracts ("GICs") / Funding Agreements 7,762 1,809 2,513 1,350

2,090 (non-putable) (2)

Funding Agreements (putable/callable) (2)	1,794	778	1,016	--	--
Payout Annuities/Structured Settlements(3)	30,765	841	2,528	1,619	25,777
Long-term Debt	45	--	45	--	--
Operating Leases(4)	2	1	1	--	--
Total Contractual Cash Obligations	$ 41,953	$ 5,014	$ 6,103	$ 2,969	$ 27,867

(1) Securities lending, dollar rolls and repurchase transactions are typically fully collateralized with marketable securities. We manage our short-term liquidity position to ensure the availability of a sufficient amount of liquid assets to extinguish short-term liabilities as they come due in the normal course of business.

(2) The putable/callable funding agreement program as well as the non-putable funding agreement and GIC programs, are very closely asset/liability duration matched. Accordingly, we maintain assets with a sufficient market value to extinguish the liabilities in the normal course of business upon surrender or maturity of the related contracts.

(3) We closely manage the assets supporting payout annuities/structured settlement liabilities.

(4) Our payment obligations relating to operating leases are managed within the structure of our intermediate to long-term liquidity management program.

The following is a distribution in U.S. Dollars of funding agreements (non-putable) by currency at December 31. All foreign currency denominated funding agreements have been swapped to U.S. Dollars.

(IN MILLIONS)

CURRENCY	2003	2002
Australian Dollar	$ 152	$ 152
Swiss Franc	358	358
Euro	28	28
British Pound	696	768
Japanese Yen	85	85
Singapore Dollar	42	42
United States Dollar	5,265	3,330
	$ 6,626	$ 4,763

Our contractual commitments as of December 31, 2003 and the payments due by period are shown in the following table.

(IN MILLIONS)	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	4-5 YEARS	OVER 5 YEARS
Other Commitments - Conditional(1)	$ 115	$ 115	$ --	$ --	$ --
Other Commitments - Unconditional(1)	119	15	34	64	6
Total Commitments	$ 234	$ 130	$ 34	$ 64	$ 6

(1) Represents investment commitments such as private placements and mortgage loans.

We have agreements in place for services we conduct, generally at cost, between subsidiaries relating to insurance, reinsurance, loans and capitalization. All material inter-company transactions have appropriately been eliminated in consolidation. Inter-company transactions among insurance subsidiaries and affiliates have been approved by the appropriate departments of insurance as required.

REGULATION AND LEGAL PROCEEDINGS

REGULATION We are subject to changing social, economic and regulatory conditions. Recent state and federal regulatory initiatives and proceedings have included efforts to remove barriers preventing banks from engaging in the securities and insurance businesses, change tax laws affecting the taxation of insurance companies and the tax treatment of insurance products or competing non-insurance products that may impact the relative desirability of various personal savings products and otherwise expand overall regulation of insurance products and the insurance industry. The ultimate changes and eventual effects of these initiatives on our business, if any, are uncertain.

LEGAL PROCEEDINGS We are involved in various legal and regulatory actions that have an effect on specific aspects of our business. Like other members of the insurance industry, we are the target of an increasing number of class action lawsuits and other types of litigation, some of which involve claims for substantial or indeterminate amounts. For a detailed description of these actions, see Note 11 to the consolidated financial statements.

PENDING ACCOUNTING STANDARDS

As of December 31, 2003, there are several pending and proposed accounting standards that we have not implemented either because the standard has not been finalized or the implementation date has not yet occurred. These standards include Statement of Position 03-01, FASB Staff Position No. FAS 106-1 and Emerging Issues Task Force Topic number 03-01. For a discussion of these pending and proposed standards, see Note 2 of the consolidated financial statements. Based on our interpretation and application

of Statement of Position 03-01, we estimate that upon adoption on January 1, 2004, it will impact our Consolidated Statements of Operations and Comprehensive Income in the range of $150 million to $200 million. However, the effect of implementing certain accounting standards on our financial results and financial condition is often based in part on market conditions at the time of implementation of the standard and other factors we are unable to determine prior to implementation. For this reason, we are sometimes unable to estimate the effect of certain pending accounting standards until the relevant authoritative body finalizes these standards or until we implement them.

FORWARD-LOOKING STATEMENTS AND RISK FACTORS

This document contains "forward-looking statements" that anticipate results based on our estimates, assumptions and plans that are subject to uncertainty. These statements are made subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. We assume no obligation to update any forward-looking statements as a result of new information or future events or developments.

These forward-looking statements do not relate strictly to historical or current facts and may be identified by their use of words like "plans," "seeks," "expects," "will," "should," "anticipates," "estimates," "intends," "believes," "likely," "targets" and other words with similar meanings. These statements may address, among other things, our strategy for growth, product development, regulatory approvals, market position, expenses, financial results, litigation and reserves. We believe that these statements are based on reasonable estimates, assumptions and plans. However, if the estimates, assumptions or plans underlying the forward-looking statements prove inaccurate or if other risks or uncertainties arise, actual results could differ materially from those communicated in these forward-looking statements. Factors which could cause actual results to differ materially from those suggested by such forward-looking statements include but are not limited to those discussed or identified in this document (including the risks described below) and in our public filings with the SEC.

In addition to the normal risks of business, we are subject to significant risks and uncertainties, including those listed below, which apply to us as an insurer and a provider of other financial services.

CHANGES IN RESERVE ESTIMATES MAY REDUCE PROFITABILITY

Reserve for life-contingent contract benefits is computed on the basis of long-term actuarial assumptions of future investment yields, mortality, morbidity, policy terminations and expenses. We periodically review and revise our reserve estimates and if future experience differs from assumptions, adjustments to reserves may be required which could have a material adverse effect on our operating results and financial condition.

CHANGES IN MARKET INTEREST RATES MAY LEAD TO A SIGNIFICANT DECREASE IN THE SALES AND PROFITABILITY OF SPREAD-BASED PRODUCTS

Our ability to manage the investment margin for spread-based products is dependent upon maintaining profitable spreads between investment yields and interest crediting rates on business. As interest rates decrease or remain at historically low levels, assets may be reinvested at lower yields, reducing investment margin. For example, during 2003 the average pre-tax investment yield for the portfolio declined to 6.0% from 6.7% in 2002. Lowering interest crediting rates can offset decreases in investment margin on some products. However, these changes could be limited by market conditions, regulatory minimum rates or contractual minimum rate guarantees on many contracts and may not match the timing or magnitude of changes in asset yields. Decreases in the rates offered on products in the financial segment could make those products less attractive, leading to lower sales and/or changes in the level of surrenders and withdrawals for these products. Increases in market interest rates can also have negative effects, for example by increasing the attractiveness of other investments, which can lead to higher surrenders at a time when the segment's investment asset values are lower as a result of the increase in interest rates. Unanticipated surrenders could result in DAC unlocking or affect the recoverability of DAC and thereby increase expenses and reduce profitability.

DECLINING EQUITY MARKETS MAY REDUCE BOTH SALES OF PRODUCTS AND INCOME FROM CONTRACT CHARGES AND MAY ADVERSELY AFFECT OPERATING RESULTS AND FINANCIAL CONDITION

Conditions in the United States and international stock markets affect sales of variable annuities. Recent allegations of improper or illegal trading activities at large mutual fund complexes could affect the

stock markets. In general, sales of variable annuities decrease when stock markets are declining over an extended period of time. The effect of decreasing separate accounts balances resulting from volatile equity markets, lower underlying fund performance or declining consumer confidence could cause contract charges earned to decrease. In addition, it is possible that the assumptions and projections we use to establish prices for GMDB, GMIB and GMAB products, particularly assumptions and projections about investment performance, do not accurately reflect the level of costs that we will ultimately incur in providing those benefits, resulting in adverse margin trends. These factors may result in accelerated DAC amortization and require increases in reserves, which would reduce statutory capital and surplus and/or net income. Poor fund performance could also result in higher partial withdrawals of account value which, for some contracts, do not reduce the GMDB by a proportional amount.

CHANGES IN ESTIMATES OF PROFITABILITY ON INTEREST-SENSITIVE PRODUCTS MAY HAVE AN ADVERSE EFFECT ON RESULTS THROUGH INCREASED AMORTIZATION OF DAC

DAC related to interest-sensitive life, variable annuity and investment contracts is amortized in proportion to EGP over the estimated lives of the contracts. Assumptions underlying EGP, including those relating to margins from mortality, investment margin, contract administration, surrender and other contract charges, are updated from time to time in order to reflect actual and expected experience and its potential effect on the valuation of DAC. Updates to these assumptions could result in DAC unlocking, which in turn could adversely affect our operating results and financial condition.

A LOSS OF KEY PRODUCT DISTRIBUTION RELATIONSHIPS COULD MATERIALLY AFFECT SALES

Certain products are distributed under agreements with other members of the financial services industry that are not affiliated with us. Termination of one or more of these agreements due to, for example, a change in control of one of these distributors, could have a detrimental effect on sales. This risk may be heightened by the enactment of the Gramm-Leach-Bliley Act of 1999 (the "GLB Act"), which eliminated many federal and state law barriers to affiliations among banks, securities firms, insurers and other financial service providers.

CHANGES IN TAX LAWS MAY DECREASE SALES AND PROFITABILITY OF PRODUCTS

Under current federal and state income tax law, certain products (primarily life insurance and annuities) we offer receive favorable tax treatment. This favorable treatment may give certain of our products a competitive advantage over noninsurance products. Congress from time to time considers legislation that would reduce or eliminate the favorable policyholder tax treatment currently applicable to life insurance and annuities. Congress also considers proposals to reduce the taxation of certain products or investments that may compete with life insurance and annuities. One such proposal was enacted in May 2003 when President Bush signed the Jobs and Growth Tax Relief Reconciliation Act of 2003, which reduced the federal income tax rates applicable to certain dividends and capital gains realized by individuals. Legislation that increases the taxation on insurance products or reduces the taxation on competing products could lessen the advantage of certain of our products as compared to competing products. Such proposals, if adopted, could have an adverse effect on our financial position or ability to sell such products and could result in the surrender of some existing contracts and policies. In addition, recent changes in the federal estate tax laws have negatively affected the demand for the types of life insurance used in estate planning.

RISKS RELATING TO THE INSURANCE INDUSTRY

OUR FUTURE RESULTS ARE DEPENDENT IN PART ON OUR ABILITY TO SUCCESSFULLY OPERATE IN AN INSURANCE INDUSTRY THAT IS HIGHLY COMPETITIVE

The insurance industry is highly competitive. Many of our competitors have well-established national reputations and market similar insurance products. Because of the competitive nature of the insurance industry, including competition for producers such as exclusive and independent agents, there can be no assurance that we will continue to effectively compete with our industry rivals, or that competitive pressure will not have a material adverse effect on our business, operating results or financial condition. In addition, we may face increased competition from banks. Until passage of the GLB Act, the ability of banks to engage in securities-related businesses was limited and banks were restricted from being affiliated with insurers. With the passage of the GLB Act, mergers that combine commercial banks, insurers and

securities firms under one holding company are now permitted. The ability of banks to affiliate with insurers may have a material adverse effect on all of our product lines by substantially increasing the number, size and financial strength of potential competitors. Furthermore, certain competitors operate using a mutual insurance company structure and therefore, may have dissimilar profitability and return targets.

CHANGING INTEREST RATES AND DECLINES IN CREDIT QUALITY MAY HAVE ADVERSE EFFECTS

A decline in market interest rates could have an adverse effect on our investment income as we invest cash in new investments that may yield less than the portfolio's average rate. In a declining interest rate environment, borrowers may prepay or redeem securities we hold more quickly than expected as they seek to refinance at lower rates. An increase in market interest rates could have an adverse effect on the value of our investment portfolio, for example, by decreasing the fair values of the fixed income securities that comprise a substantial majority of our investment portfolio. Increases in interest rates also may lead to an increase in policy loans, surrenders and withdrawals that generally would be funded at a time when fair values of fixed income securities are lower. A decline in the quality of our investment portfolio as a result of adverse economic conditions or otherwise could cause additional realized losses on securities, including realized losses relating to derivative strategies not adequately addressing portfolio risks.

WE MAY SUFFER LOSSES FROM LITIGATION

As is typical for a large insurance group, we are involved in litigation. Among other things, we, like other participants in the insurance industry, have been subject in recent years to an increasing volume of class action litigation challenging a range of industry practices. Our litigation exposure could result in a material adverse effect on our operating results and financial condition in a future period in the event of an unexpected adverse outcome or if additional reserves are required to be established for such litigation. For a description of our current material litigation matters, see Note 11 of the consolidated financial statements.

WE ARE SUBJECT TO EXTENSIVE REGULATION AND POTENTIAL FURTHER RESTRICTIVE REGULATION MAY INCREASE OUR OPERATING COSTS AND LIMIT OUR GROWTH

We are subject to extensive regulation by state insurance regulators. This regulation is focused on the protection of policyholders and not investors. In many cases, state regulations limit our ability to grow and improve the profitability of our business. Additionally, we have various entities registered under the federal securities laws as broker-dealers, investment advisers and/or investment companies. These entities are subject to the regulatory jurisdiction of the SEC, the National Association of Securities Dealers and, in some cases, state securities administrators. The laws regulating the securities products and activities are complex, numerous and subject to change. Further, in recent years, the state insurance regulatory framework has come under increased federal scrutiny, and proposals that would provide for optional federal chartering of insurance companies have been discussed by members of Congress. We can make no assurances as to whether further state or federal measures will be adopted to change the nature or scope of the regulation of the insurance industry or as to the effect that any such measures would have on us.

THE UNAVAILABILITY OF REINSURANCE MAY LIMIT OUR ABILITY TO WRITE NEW BUSINESS

Market conditions beyond our control determine the availability and cost of the reinsurance we purchase. No assurances can be made that reinsurance will remain continuously available to us to the same extent and on the same terms and rates as are currently available. If we were unable to maintain our current level of reinsurance or purchase new reinsurance protection in amounts that we consider sufficient and at prices that we consider acceptable, we would have to either accept an increase in our net liability exposure or reduce our insurance writings.

REINSURANCE SUBJECTS US TO THE CREDIT RISK OF OUR REINSURERS AND MAY NOT BE ADEQUATE TO PROTECT US AGAINST LOSSES ARISING FROM CEDED INSURANCE

The collectibility of reinsurance recoverables is subject to uncertainty arising from a number of factors, including whether insured losses meet the qualifying conditions of the reinsurance contract and whether reinsurers, or their affiliates, have the financial capacity and willingness to make payments under the terms of a reinsurance treaty or contract. Our inability to collect a material recovery from a reinsurer could have a material adverse effect on our operating results and financial condition.

THE CONTINUED THREAT OF TERRORISM AND ONGOING MILITARY ACTIONS MAY ADVERSELY AFFECT THE LEVEL OF CLAIM EXPENSE WE INCUR AND THE VALUE OF OUR INVESTMENT PORTFOLIO

The continued threat of terrorism, both within the United States and abroad, and ongoing military and other actions and heightened security measures in response to these types of threats, may cause significant volatility and declines in the equity markets in the United States, Europe and elsewhere, and result in loss of life, property damage, additional disruptions to commerce and reduced economic activity. Some of the assets in our investment portfolio may be adversely affected by declines in the equity markets and reduced economic activity caused by the continued threat of terrorism. In the event that a terrorist act occurs, we may be adversely affected, depending on the nature of the event. We seek to mitigate the potential impact of terrorism on our commercial mortgage portfolio by limiting geographical concentrations in key metropolitan areas and by requiring terrorism insurance to the extent that it is commercially available.

ANY DECREASE IN OUR FINANCIAL STRENGTH RATINGS MAY HAVE AN ADVERSE EFFECT ON OUR COMPETITIVE POSITION

Financial strength ratings are important factors in establishing the competitive position of insurance companies and generally will have an effect on an insurance company's business. On an ongoing basis, rating agencies review the financial performance and condition of insurers and could downgrade or change the outlook on an insurer's ratings due to, for example, a decline in the value of an insurer's investment portfolio or increased liabilities for variable contracts arising from additional GMDB, GMIB or GMAB exposure resulting from market declines. Currently, our insurance financial strength ratings and the ratings of AIC are Aa2, AA and A+ (from Moody's, Standard & Poor's and A.M. Best, respectively). Because these ratings are subject to periodic review, the continued retention of these ratings cannot be assured. A multiple level downgrade in any of these ratings could have a material adverse effect on our sales, including the competitiveness and marketability of our product offerings, as well as our liquidity, operating results and financial condition.

CHANGES IN ACCOUNTING STANDARDS ISSUED BY THE FASB OR OTHER STANDARD-SETTING BODIES MAY ADVERSELY AFFECT OUR FINANCIAL STATEMENTS

Our financial statements are subject to the application of GAAP, which is periodically revised and/or expanded. Accordingly, we are required to adopt new or revised accounting standards from time to time issued by recognized authoritative bodies, including the FASB. It is possible that future changes we are required to adopt could change the current accounting treatment that we apply to our consolidated financial statements and that such changes could have a material adverse effect on our results and financial condition. For a description of potential changes in accounting standards that could affect us currently, see Note 2 of the consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information required for Item 7A is incorporated by reference to the material under caption "Market Risk" in Part II, Item 7 of this report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(IN MILLIONS)	YEAR ENDED DECEMBER 31, 2003	2002	2001
REVENUES			
Premiums (net of reinsurance ceded of $418, $393 and $323)	$ 959	$ 1,023	$ 1,046
Contract charges	872	853	821
Net investment income	3,082	2,978	2,833
Realized capital gains and losses	(84)	(422)	(207)
	4,829	4,432	4,493
COSTS AND EXPENSES			
Contract benefits (net of reinsurance recoverable of $336, $387 and $277)	1,595	1,543	1,485

Interest credited to contractholder funds 1,764 1,691 1,670 Amortization of deferred policy acquisition costs 479 418 365 Operating costs and expenses 493 475 416 ---------- ---------- ---------- 4,331 4,127 3,936 LOSS ON DISPOSITION OF OPERATIONS (45) (3) (4) ---------- ---------- ---------- INCOME FROM OPERATIONS BEFORE INCOME TAX EXPENSE AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, AFTER-TAX 453 302 553 Income tax expense 162 57 179 ---------- ---------- ---------- INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, AFTER-TAX 291 245 374 Cumulative effect of change in accounting principle, after-tax (13) - (6) ---------- ---------- ---------- NET INCOME 278 245 368 ---------- ---------- ---------- OTHER COMPREHENSIVE INCOME, AFTER-TAX Changes in: Unrealized net capital gains and losses and net gains and losses on derivative financial instruments 1 416 76 Unrealized foreign currency

translation
adjustments -
(1) 2 -------
--- ---------
- ----------
OTHER
COMPREHENSIVE
INCOME,
AFTER-TAX 1
415 78 ------
---- --------
-- ----------
COMPREHENSIVE
INCOME $ 279
$ 660 $ 446
==========
==========
==========

See notes to consolidated financial statements.

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31,

2003 2002 ---
------- -----
----- (IN
MILLIONS,
EXCEPT PAR
VALUE DATA)
ASSETS
Investments
Fixed income
securities,
at fair value
(amortized
cost $48,401
and $41,723)
$ 51,578 $
44,805
Mortgage
loans 6,354
5,883 Equity
securities
164 183
Short-term
765 839
Policy loans
686 692 Other
442 268 -----
----- -------
--- Total
investments
59,989 52,670
Cash 121 252
Deferred
policy
acquisition
costs 3,202
2,915
Reinsurance
recoverables,
net 1,185
1,046 Accrued
investment
income 567
534 Other
assets 323
304 Separate
Accounts
13,425 11,125
---------- --

TOTAL ASSETS

$ 78,812 $ 68,846 ========== ========== LIABILITIES Contractholder funds $ 44,914 $ 38,858 Reserve for life-contingent contract benefits 10,480 9,733 Unearned premiums 32 24 Payable to affiliates, net 114 80 Other liabilities and accrued expenses 2,594 1,956 Deferred income taxes 779 708 Long-term debt 45 - Separate Accounts 13,425 11,125 ---------- ---------- TOTAL LIABILITIES 72,383 62,484 ---------- ---------- COMMITMENTS AND CONTINGENT LIABILITIES (NOTES 7 AND 11) SHAREHOLDER'S EQUITY Redeemable preferred stock - series A, $100 par value, 1,500,000 shares authorized, 815,460 and 930,650 shares issued and outstanding 82 93 Common stock, $227 par value, 23,800 shares authorized and outstanding 5 5 Additional capital paid-in 1,067 1,067 Retained income 4,222 4,145 Accumulated other comprehensive income: Unrealized net capital

gains and
losses and
net gains and
losses on
derivative
financial
instruments
1,053 1,052 -
--------- ---
------- Total
accumulated
other
comprehensive
income 1,053
1,052 -------
--- ---------
- TOTAL
SHAREHOLDER'S
EQUITY 6,429
6,362 -------
--- ---------
- TOTAL
LIABILITIES
AND
SHAREHOLDER'S
EQUITY $
78,812 $
68,846
==========
==========

See notes to consolidated financial statements.

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY

YEAR ENDED
DECEMBER 31,

-- (IN
MILLIONS)
2003 2002
2001 -------
--- --------
-- ---------
- REDEEMABLE
PREFERRED
STOCK -
SERIES A
Balance,
beginning of
year $ 93 $
104 $ 92
Issuance of
stock - 5 15
Redemption
of stock
(11) (16)
(3) --------
-- ---------
- ----------
Balance, end
of year 82
93 104 -----
----- ------
---- -------

REDEEMABLE
PREFERRED
STOCK -
SERIES A
SUBSCRIPTIONS
RECEIVABLE -
- (14) -----
----- ------

---- -------

REDEEMABLE
PREFERRED
STOCK -
SERIES B
Balance,
beginning of
year - - 117
Redemption
of stock - -
(117) ------
---- -------
--- --------
-- Balance,
end of year
- - - ------
---- -------
--- --------
-- COMMON
STOCK 5 5 5
ADDITIONAL
CAPITAL
PAID-IN
Balance,
beginning of
year 1,067
717 600
Capital
contribution
- 350 117 --
-------- ---
------- ----

Balance, end
of year
1,067 1,067
717 --------
-- ---------
- ----------
RETAINED
INCOME
Balance,
beginning of
year 4,145
3,948 3,752
Net income
278 245 368
Dividends
(201) (48)
(172) ------
---- -------
--- --------
-- Balance,
end of year
4,222 4,145
3,948 ------
---- -------
--- --------
--
ACCUMULATED
OTHER
COMPREHENSIVE
INCOME
Balance,
beginning of
year 1,052
637 559
Change in
unrealized
net capital
gains and
losses and
net gains
and losses
on
derivative
financial
instruments
1 416 76
Change in

unrealized
foreign
currency
translation
adjustments
- (1) 2 ----
------ -----
----- ------

Balance, end
of year
1,053 1,052
637 --------
-- ---------
- ----------
TOTAL
SHAREHOLDER'S
EQUITY $
6,429 $
6,362 $
5,397
==========
==========
==========

See notes to consolidated financial statements.

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED
DECEMBER 31,

(IN MILLIONS)
2003 2002
2001 --------
-- ----------

CASH FLOWS
FROM
OPERATING
ACTIVITIES
Net income $
278 $ 245 $
368
Adjustments
to reconcile
net income to
net cash
provided by
operating
activities:
Amortization
and other
non-cash
items (175)
(210) (261)
Realized
capital gains
and losses 84
422 207 Loss
on
disposition
of operations
45 3 4
Cumulative
effect of
change in
accounting
for
derivative
and embedded
derivative
financial
instruments

13 - 6 Interest credited to contractholder funds 1,764 1,691 1,670 Changes in: Contract benefit and other insurance reserves 45 134 30 Unearned premiums 8 7 (31) Deferred policy acquisition costs (253) (249) (272) Reinsurance recoverables (141) (122) (137) Income taxes payable 3 (85) 26 Other operating assets and liabilities 81 (66) 137 ---------- ---------- ---------- Net cash provided by operating activities 1,752 1,770 1,747 ---------- ---------- ---------- CASH FLOWS FROM INVESTING ACTIVITIES Proceeds from sales Fixed income securities 8,158 6,224 6,552 Equity securities 80 129 533 Investment collections Fixed income securities 4,818 4,041 3,434 Mortgage loans 679 542 359 Investments purchases Fixed income securities (19,225) (16,155) (14,173) Equity securities (47) (149) (311) Mortgage loans (1,146) (916) (1,456) Acquisitions, net of cash received - - 67 Change in short-term

investments, net 236 (425) 330 Change in other investments, net 14 (154) (28) ---------- ---------- ----------
Net cash used in investing activities (6,433) (6,863) (4,693) ---------- ---------- ----------
CASH FLOWS FROM FINANCING ACTIVITIES Proceeds from issuance of redeemable preferred stock - 19 1 Redemption of redeemable preferred stock (11) (16) (120) Capital contribution - 350 117 Contractholder fund deposits 9,841 8,946 7,860 Contractholder fund withdrawals (5,253) (4,036) (4,668) Dividends paid (27) (48) (172) ---------- ---------- ---------- Net cash provided by financing activities 4,550 5,215 3,018 ---------- ---------- ----------
NET (DECREASE) INCREASE IN CASH (131) 122 72 CASH AT BEGINNING OF YEAR 252 130 58 ---------- ---------- ----------
CASH AT END OF YEAR $ 121 $ 252 $ 130 ========== ========== ==========

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of Allstate Life Insurance Company ("ALIC") and its wholly owned subsidiaries (collectively referred to as the "Company"). ALIC is wholly owned by Allstate Insurance Company ("AIC"), a wholly owned subsidiary of The Allstate Corporation (the "Corporation"). These consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). All significant intercompany accounts and transactions have been eliminated.

To conform with the 2003 presentation, certain amounts in the prior years' consolidated financial statements and notes have been reclassified.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

NATURE OF OPERATIONS

The Company offers a diversified portfolio of retail and institutional products to meet consumers' needs in the areas of financial protection, savings and retirement through a variety of distribution channels. Retail life insurance products include: term life, whole life, credit life, interest-sensitive life, variable life, variable universal life and single premium life. Other insurance products include long-term care, accidental death, hospital indemnity and credit disability. Savings products include fixed deferred annuities (including market value adjusted annuities, equity-indexed annuities and treasury-linked annuities), immediate annuities (including structured settlement annuities) and variable annuities. These products are sold through a variety of distribution channels including Allstate agencies, financial institutions and broker/dealers, independent agents (primarily master brokerage agencies), direct marketing and specialized brokers. The institutional product line consists primarily of funding agreements sold to variable interest entities that issue medium-term notes to institutional investors.

The Company is authorized to sell its products in all 50 states, the District of Columbia, Puerto Rico, Guam and the U.S. Virgin Islands. For 2003, the top geographic locations for statutory premiums and annuity considerations for the Company were Delaware, California, New York, Florida, and Pennsylvania. No other jurisdiction accounted for more than 5% of statutory premiums and annuity considerations for the Company.

The Company monitors economic and regulatory developments that have the potential to impact its business. Federal legislation has allowed banks and other financial organizations to have greater participation in the securities and insurance businesses. This legislation may result in an increased level of competition for sales of the Company's products. Furthermore, state and federal laws and regulations affect the taxation of insurance companies and life insurance and annuity products. Congress and various state legislatures have considered proposals that, if enacted, could impose a greater tax burden on the Company or could have an adverse impact on the tax treatment of some insurance products offered by the Company, including favorable policyholder tax treatment currently applicable to life insurance and annuities. Recent legislation that reduced the federal income tax rates applicable to certain dividends and capital gains realized by individuals, or other proposals, if adopted, that reduce the taxation, or permit the establishment, of certain products or investments that may compete with life insurance or annuities could have an adverse effect on the Company's financial position or ability to sell such products. In addition, recent changes in the federal estate tax laws have negatively affected the demand for the types of life insurance used in estate planning.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INVESTMENTS

Fixed income securities include bonds, mortgage-backed and asset-backed securities, and redeemable preferred stocks. Fixed income securities are carried at fair value and may be sold prior to their contractual maturity ("available for sale"). The fair value of publicly traded fixed income securities is based upon independent market quotations. The fair value of non-publicly traded securities is based on either widely accepted pricing valuation models which use internally developed ratings and independent third party data (e.g., term structures and current publicly traded bond prices) as inputs or independent third party pricing sources. The valuation models use indicative information such as

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

ratings, industry, coupon, and maturity along with related third party data and publicly traded bond prices to determine security specific spreads. These spreads are then adjusted for illiquidity based on historical analysis and broker surveys. Periodic changes in fair values, net of deferred income taxes, certain deferred policy acquisition costs, and certain reserves for life-contingent contract benefits, are reflected as a component of other comprehensive income. Cash received from calls, principal payments and make-whole payments is reflected as a component of proceeds from sales. Cash received from maturities and pay-downs is reflected as a component of investment collections.

Mortgage loans are carried at the outstanding principal balance, net of unamortized premium or discount and valuation allowances. Valuation allowances are established for impaired loans when it is probable that contractual principal and interest will not be collected. Valuation allowances for impaired loans reduce the carrying value to the fair value of the collateral or the present value of the loan's expected future repayment cash flows discounted at the loan's original effective interest rate.

Equity securities include common stocks, non-redeemable preferred stocks and limited partnership interests. Common stocks and non-redeemable preferred stocks had a carrying value of $83 million and $96 million, and cost of $79 million and $104 million at December 31, 2003 and 2002, respectively. Common stocks and non-redeemable preferred stocks are classified as available for sale and are carried at fair value if independent market quotations are available. If independent market quotations are not available, these securities are carried at cost. The difference between cost and fair value, net of deferred income taxes, is reflected as a component of accumulated other comprehensive income. Investments in limited partnership interests had a carrying value and cost of $81 million and $87 million at December 31, 2003 and 2002, respectively, and are accounted for in accordance with the equity method of accounting except for instances in which the Company's interest is so minor that it exercises virtually no influence over operating and financial policies, in which case, the Company applies the cost method of accounting.

Policy loans are carried at unpaid principal balances. Other investments consist primarily of real estate investments, which are accounted for by the equity method if held for investment, or depreciated cost, net of valuation allowances, if the Company has an active plan to sell.

Short-term investments are carried at cost or amortized cost that approximates fair value, and generally include the reinvestment of collateral received in connection with certain securities included in repurchase, resale and lending activities and derivative transactions. For these transactions, the Company records an offsetting liability in other liabilities and accrued expenses for the Company's obligation to repay the collateral.

Investment income consists primarily of interest and dividends, net investment income from partnership interests and income from certain derivative transactions. Interest is recognized on an accrual basis and dividends are recorded at the ex-dividend date. Interest income on mortgage-backed and asset-backed securities is determined using the effective yield method, based on estimated principal repayments. Interest income on certain beneficial interests in securitized financial assets is determined using the prospective yield method, based upon projections of expected future cash flows. Accrual of income is suspended for fixed income securities and mortgage loans that are in default or when the receipt of interest payments is in doubt. Income from investments in partnership interests, accounted for on the cost basis, is recognized upon receipt of amounts distributed by the partnerships as income.

Realized capital gains and losses include gains and losses on investment dispositions, write-downs in value due to other than temporary declines in fair value and changes in the value of certain derivatives including related periodic and final settlements. Realized capital gains and losses on investment dispositions are determined on a specific identification basis.

The Company writes down, to fair value, any fixed income or equity security that is classified as other than temporarily impaired in the period the security is deemed to be other than temporarily impaired.

DERIVATIVE AND EMBEDDED DERIVATIVE FINANCIAL INSTRUMENTS

The Company adopted the provisions of Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standard ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities", and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging

Activities", as of January 1, 2001. The impact of SFAS No. 133 and SFAS No. 138 (the "statements") to the Company was a loss of $6 million, after-tax, and is reflected as a cumulative effect of change in accounting principle on the Consolidated Statements of Operations and Comprehensive Income for the year ended December 31, 2001.

Derivative financial instruments include swaps, futures, options, interest rate caps and floors, warrants, certain forward contracts for purchases of to-be-announced ("TBA") mortgage securities, and certain investment risk transfer reinsurance agreements. Derivatives that are required to be separated from the host instrument and accounted for as derivative financial instruments ("subject to bifurcation") are embedded in convertible and other fixed income securities, equity-indexed life and annuity contracts, certain variable life and annuity contracts and modified coinsurance contracts (see Note 7).

All derivatives are accounted for on a fair value basis and reported as other investments, other assets, other liabilities and accrued expenses or contractholder funds. Embedded derivative instruments subject to bifurcation are also accounted for on a fair value basis and are reported together with the host contract. The change in the fair value of derivatives embedded in assets and subject to bifurcation is reported in realized capital gains and losses. The change in the fair value of derivatives embedded in liabilities and subject to bifurcation is reported in life and annuity contract benefits or realized capital gains and losses.

When derivatives meet specific criteria, they may be designated as accounting hedges and accounted for as fair value, cash flow, foreign currency fair value or foreign currency cash flow hedges. The hedged item may be either all or a specific portion of a recognized asset, liability or an unrecognized firm commitment attributable to a particular risk. At the inception of the hedge, the Company formally documents the hedging relationship and risk management objective and strategy. The documentation identifies the hedging instrument, the hedged item, the nature of the risk being hedged and the methodology used to assess how effective the hedging instrument is in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk, or in the case of a cash flow hedge, the exposure to changes in the hedged item's or transaction's variability in cash flows attributable to the hedged risk. The Company does not exclude any component of the change in fair value of the hedging instrument from the effectiveness assessment. At each reporting date, the Company confirms that the hedging instrument continues to be highly effective in offsetting the hedged risk. Ineffectiveness in fair value hedges and cash flow hedges is reported in realized capital gains and losses. For the years ended December 31, 2003, 2002 and 2001, the hedge ineffectiveness reported as realized capital gains and losses amounted to gains of $16 million, losses of $15 million and gains of $6 million, respectively.

FAIR VALUE HEDGES The Company designates certain of its interest rate and foreign currency swap contracts and certain investment risk transfer reinsurance agreements as fair value hedges when the hedging instrument is highly effective in offsetting the risk of changes in the fair value of the hedged item.

For hedging instruments used in fair value hedges, when the hedged items are investment assets or a portion thereof, the change in the fair value of the derivatives is reported in net investment income, together with the change in the fair value of the hedged items. The change in the fair value of hedging instruments used in fair value hedges of contractholder funds liabilities or a portion thereof are reported in life and annuity contract benefits, together with the change in the fair value of the hedged item. Accrued periodic settlements on swaps are reported together with the changes in fair value of the swaps in net investment income, life and annuity contract benefits or interest expense. The book value of the hedged asset or liability is adjusted for the change in the fair value of the hedged risk.

CASH FLOW HEDGES The Company designates certain of its foreign currency swap contracts as cash flow hedges when the hedging instrument is highly effective in offsetting the exposure of variations in cash flows for the hedged risk that could affect net income. The Company's cash flow exposure may be associated with an existing asset, liability, or a forecasted transaction. Anticipated transactions must be probable of occurrence and their significant terms and specific characteristics must be identified.

For hedging instruments used in cash flow hedges, the changes in fair value of the derivatives are reported in accumulated other comprehensive income. Amounts are reclassified to net investment income or realized capital gains and losses as the hedged transaction affects net income or when the forecasted transaction affects net income. Accrued periodic settlements on derivatives used in cash flow hedges are reported in net investment income. The amount reported in accumulated other comprehensive income for a hedged transaction is limited to the lesser of the cumulative gain or loss on the derivative less the amount reclassified to net income; or the cumulative gain or loss on the derivative needed to offset the cumulative change in the expected future cash flows on the hedged transaction from inception of the hedge less the derivative gain or loss previously reclassified from accumulated other comprehensive income to net income. If the Company expects at any time that the loss reported in accumulated other comprehensive income would lead to a net loss on the combination of the hedging instrument and the hedged transaction which may not be

recoverable, a loss is recognized immediately in realized capital gains and losses. If an impairment loss is recognized on an asset or an additional obligation is incurred on a liability involved in a hedge transaction, any offsetting gain in accumulated other comprehensive income is reclassified and reported together with the impairment loss or recognition of the obligation.

TERMINATION OF HEDGE ACCOUNTING If, subsequent to entering into a hedge transaction, the derivative becomes ineffective (including if the hedged item is sold or otherwise extinguished, the occurrence of a hedged forecasted transaction is no longer probable, or the hedged asset has become impaired), the Company may terminate the derivative position. The Company may also terminate derivative instruments or redesignate them as non-hedge as a result of other events or circumstances. If the derivative financial instrument is not terminated when a fair value hedge is no longer effective, the future gains and losses recognized on the derivative are reported in realized capital gains and losses. When a fair value hedge is no longer effective, is redesignated as a non-hedge, or for which the derivative has been terminated, the gain or loss recognized on the item being hedged and used to adjust the book value of the asset, liability or portion thereof is amortized over the remaining life of the hedged item to net investment income or life and annuity contract benefits, beginning in the period that hedge accounting is no longer applied. If the hedged item of a fair value hedge is an asset which has become impaired, the adjustment made to the book value of the asset is subject to the accounting policies applied to impaired assets. When a derivative financial instrument used in a cash flow hedge of an existing asset or liability is no longer effective or is terminated, the gain or loss recognized on the derivative is reclassified from accumulated other comprehensive income to net income as the hedged risk impacts net income, beginning in the period hedge accounting is no longer applied or the derivative instrument is terminated. If the derivative financial instrument is not terminated when a cash flow hedge is no longer effective, the future gains and losses recognized on the derivative are reported in realized capital gains and losses. When a derivative financial instrument used in a cash flow hedge of a forecasted transaction is terminated because the forecasted transaction is no longer probable, or if the cash flow hedge is no longer effective, the gain or loss recognized on the derivative is reclassified from accumulated other comprehensive income to realized capital gains and losses in the period that hedge accounting is no longer applied.

NON-HEDGE DERIVATIVE FINANCIAL INSTRUMENTS The Company also has certain derivatives that are used in interest rate, equity price and credit risk management strategies for which hedge accounting is not applied. These derivatives primarily consist of indexed instruments, certain interest rate swap agreements and financial futures contracts, interest rate cap and floor agreements, certain forward contracts for TBA mortgage securities and credit default swaps. Based upon the type of derivative instrument and strategy, the income statement effects of these derivatives are reported in a single line item, generally with results of the associated risk. Therefore, the derivatives' fair value gains and losses and accrued periodic settlements are recognized together in one of the following during the reporting period: net investment income, realized capital gains and losses, operating costs and expenses or life and annuity contract benefits.

SECURITY REPURCHASE AND RESALE AND SECURITIES LOANED

Securities purchased under agreements to resell and securities sold under agreements to repurchase, including a mortgage dollar roll program, are treated as financing arrangements and the related obligations to return the collateral are carried at the amounts at which the securities will be subsequently resold or reacquired, including accrued interest, as specified in the respective agreements. The Company's policy is to take possession or control of securities purchased under agreements to resell. Assets to be repurchased are the same, or substantially the same, as the assets transferred and the transferor, through the right of substitution, maintains the right and ability to redeem the collateral on short notice. The market value of securities to be repurchased or resold is monitored, and additional collateral is obtained, where appropriate, to protect against credit exposure.

Securities loaned are treated as financing arrangements and the collateral received is recorded in short-term investments, fixed income securities and other liabilities and accrued expenses. The Company obtains collateral in an amount equal to 102% of the fair value of securities. The Company monitors the market value of securities loaned on a daily basis and obtains additional collateral as necessary. Substantially all of the Company's securities loaned are on loan with large brokerage firms.

Securities repurchase and resale agreements and securities lending transactions are used to generate net investment income. The cash received from repurchases and resale agreements also provide a source of liquidity. These instruments are short-term in nature (usually 30 days or less) and are collateralized principally by U.S. Government and mortgage-backed securities. The carrying values of these instruments approximate fair value because of their relatively

short-term nature.

RECOGNITION OF PREMIUM AND CONTRACT CHARGE REVENUE AND RELATED BENEFITS AND INTEREST CREDITED

Traditional life insurance products consist principally of products with fixed and guaranteed premiums and benefits, primarily term and whole life insurance products. Premiums from these products are recognized as revenue when due. Benefits are recognized in relation to such revenue so as to result in the recognition of profits over the life of the policy and are reflected in life and annuity contract benefits.

Immediate annuities with life contingencies, including certain structured settlement annuities, provide insurance protection over a period that extends beyond the period during which premiums are collected. Gross premiums in excess of the net premium on immediate annuities with life contingencies are deferred and recognized over the contract period. Contract benefits are recognized in relation to such revenue so as to result in the recognition of profits over the life of the policy.

Interest-sensitive life contracts, such as universal life and single premium life, are insurance contracts whose terms are not fixed and guaranteed. The terms that may be changed include premiums paid by the contractholder, interest credited to the contractholder account balance and any amounts assessed against the contractholder account balance. Premiums from these contracts are reported as contractholder fund deposits. Contract charges consist of fees assessed against the contractholder account balance for cost of insurance (mortality risk), contract administration and early surrender. These revenues are recognized when assessed against the contractholder account balance. Life and annuity contract benefits include life-contingent benefit payments in excess of the contractholder account balance.

Contracts that do not subject the Company to significant risk arising from mortality or morbidity are referred to as investment contracts. Fixed annuities, including market value adjusted annuities, equity-indexed annuities and immediate annuities without life contingencies, certain guaranteed investment contracts ("GICs") and funding agreements are considered investment contracts. Deposits received for such contracts are reported as contractholder fund deposits. Contract charges for investment contracts consist of fees assessed against the contractholder account balance for contract administration and early surrender. These revenues are recognized when assessed against the contractholder account balance.

Interest credited to contractholder funds represents interest accrued or paid for interest-sensitive life contracts and investment contracts. Crediting rates for certain fixed annuities and interest-sensitive life contracts are adjusted periodically by the Company to reflect current market conditions subject to contractually guaranteed minimum rates. Crediting rates for indexed annuities and indexed life products are based on a specified interest rate index, such as LIBOR, or an equity index, such as the S&P 500.

Separate accounts products include variable annuities and variable life insurance contracts. The assets supporting these products are legally segregated and available only to settle separate accounts contract obligations. Deposits received are reported as separate accounts liabilities. Contract charges for these products consist of fees assessed against the contractholder account values for contract maintenance, administration, mortality, expense and early surrender. Contract benefits incurred include guaranteed minimum death benefits paid on variable annuity contracts.

DEFERRED POLICY ACQUISITION COSTS

Costs that vary with and are primarily related to acquiring life insurance and investment business are deferred and recorded as deferred policy acquisition costs ("DAC"). These costs are principally agents' and brokers' remuneration, certain underwriting costs and direct mail solicitation expenses. All other acquisition expenses are charged to operations as incurred and included in operating costs and expenses on the Consolidated Statements of Operations and Comprehensive Income. DAC is periodically reviewed for recoverability and written down when necessary.

For traditional life insurance and other premium paying contracts, such as immediate annuities with life contingencies and limited payment contracts, DAC is amortized in proportion to the estimated revenues on such business. Assumptions used in amortization of DAC and reserve calculations are determined based upon conditions as of the date of policy issue and are generally not revised during the life of the policy. Any deviations from projected business in force, resulting from actual policy terminations differing from expected levels, and any estimated premium deficiencies change the rate of amortization in the period such events occur. Generally, the amortization period for these contracts approximates the estimated lives of the policies.

For internal exchanges of traditional life insurance and immediate annuities with life contingencies, the unamortized balance of costs previously deferred under the original contracts are charged to income. The new costs associated with the exchange are deferred and amortized to income.

For interest-sensitive life, variable annuities and investment contracts, DAC is amortized in proportion to the incidence of the present value of estimated gross profits ("EGP") on such business over the estimated lives of the contracts. Generally, the amortization period ranges from 15-30 years; however, estimates of customer surrender rates result in the majority of deferred costs being amortized over the surrender charge period. The rate of amortization during this term is matched to the pattern of EGP. EGP consists of the following components: margins from mortality including guaranteed minimum death and income benefits; contract administration, surrender and other contract charges, less maintenance expenses; and investment margin, including realized capital gains and losses.

DAC amortization for variable annuity and life contracts is significantly impacted by the return on the underlying funds. The Company's long-term expectation of separate accounts fund performance after fees is approximately 8%, which is consistent with its pricing assumptions. Whenever actual separate accounts fund performance based on the two most recent years varies from the 8% expectation, the Company projects performance levels over the next five years such that the mean return over that seven year period equals the long-term 8% expectation. This approach is commonly referred to as "reversion to the mean" and is commonly used by the life insurance industry as an appropriate method for amortizing variable annuity and life DAC. In applying the reversion to the mean process, the Company does not allow the future rates of return after fees projected over the five-year period to exceed 12.75% or fall below 0%. The Company periodically evaluates the utilization of this process to determine that it is reasonably possible that variable annuity and life fund performance will revert to the expected long-term mean within this time horizon.

Changes in the amount or timing of the incidence of EGP result in adjustments to the cumulative amortization of DAC. All such adjustments are reflected in the current results of operations.

The Company performs quarterly reviews of DAC recoverability for interest-sensitive life, variable annuities and investment contracts in the aggregate using current assumptions. If a change in the amount of EGP is significant, it could result in the unamortized DAC not being recoverable, resulting in a charge which is included as a component of amortization of deferred policy acquisition costs on the Consolidated Statements of Operations and Comprehensive Income.

The cost assigned to the right to receive future cash flows from certain business purchased from other insurers is also classified as deferred policy acquisition costs in the Consolidated Statements of Financial Position. The costs capitalized represent the present value of future profits expected to be earned over the life of the contracts acquired. These costs are amortized as profits emerge over the life of the acquired business and are periodically evaluated for recoverability. Present value of future profits was $27 million and $63 million at December 31, 2003 and 2002, respectively. Amortization expense on present value of future profits was $36 million, $15 million and $16 million for the years ended December 31, 2003, 2002 and 2001, respectively.

REINSURANCE RECOVERABLE

In the normal course of business, the Company seeks to limit aggregate and single exposure to losses on large risks by purchasing reinsurance from reinsurers (see Note 9). The amounts reported in the Consolidated Statements of Financial Position include amounts billed to reinsurers on losses paid as well as estimates of amounts expected to be recovered from reinsurers on incurred losses that have not yet been paid. Reinsurance recoverables on unpaid losses are estimated based upon assumptions consistent with those used in establishing the liabilities related to the underlying reinsured contract. Insurance liabilities are reported gross of reinsurance recoverables. Prepaid reinsurance premiums are deferred and reflected in income in a manner consistent with the recognition of premiums on the reinsured contracts. Reinsurance does not extinguish the Company's primary liability under the policies written. Therefore, the Company regularly evaluates reinsurers and amounts recoverable and establishes allowances for uncollectible reinsurance as appropriate.

The Company also has reinsurance agreements that transfer the investment risk for a portion of the GMDBs and guaranteed minimum income benefits ("GMIBs") offered in certain variable contracts.

INCOME TAXES

The income tax provision is calculated under the liability method. Deferred tax assets and liabilities are recorded

based on the difference between the financial statement and tax bases of assets and liabilities at the enacted tax rates. The principal assets and liabilities giving rise to such differences are unrealized capital gains and losses on certain investments, insurance reserves and deferred policy acquisition costs. A deferred tax asset valuation allowance is established when there is uncertainty that such assets would be realized.

SEPARATE ACCOUNTS

The Company issues variable annuities, variable life insurance contracts and certain GICs, the assets and liabilities of which are legally segregated and recorded as assets and liabilities of the separate accounts. The assets of the separate accounts are carried at fair value. Separate accounts liabilities represent the contractholders' claims to the related assets and are carried at the fair value of the assets. Investment income and realized capital gains and losses of the separate accounts accrue directly to the contractholders and therefore, are not included in the Company's Consolidated Statements of Operations and Comprehensive Income. Revenues to the Company from the separate accounts consist of contract charges for maintenance and administration services, mortality, early surrender and expenses and are reflected in contract charges. Deposits to the separate accounts are not included in consolidated cash flows.

Absent any contract provision wherein the Company guarantees either a minimum return or account value upon death or annuitization, variable annuity and variable life insurance contractholders bear the investment risk that the separate accounts' funds may not meet their stated investment objectives.

RESERVES FOR LIFE-CONTINGENT CONTRACT BENEFITS

The reserve for life-contingent contract benefits, which relates to traditional life insurance and immediate annuities with life contingencies, is computed on the basis of long-term actuarial assumptions as to future investment yields, mortality, morbidity, terminations and expenses. These assumptions, which for traditional life insurance are applied using the net level premium method, include provisions for adverse deviation and generally vary by such characteristics as type of coverage, year of issue and policy duration. Detailed reserve assumptions and reserve interest rates are outlined in Note 8. To the extent that unrealized gains on fixed income securities would result in a premium deficiency had those gains actually been realized, the related increase in reserves for certain immediate annuities with life contingencies is recorded net of tax as a reduction of the unrealized net capital gains included in accumulated other comprehensive income.

CONTRACTHOLDER FUNDS

Contractholder funds arise from the issuance of interest-sensitive life policies and investment contracts. Deposits received are recorded as interest-bearing liabilities. Contractholder funds are equal to deposits received and interest credited to the benefit of the contractholder less surrenders and withdrawals, mortality charges and administrative expenses. Detailed information on crediting rates and surrender and withdrawal provisions on contractholder funds are outlined in Note 8.

OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS

Commitments to invest, commitments to purchase private placement securities, commitments to extend mortgage loans, financial guarantees and credit guarantees have off-balance-sheet risk because their contractual amounts are not recorded in the Company's Consolidated Statements of Financial Position. The contractual amounts and fair values of these instruments are outlined in Note 7.

ADOPTED ACCOUNTING STANDARDS

FASB INTERPRETATION NO.46 AND 46R, "CONSOLIDATION OF VARIABLE INTEREST ENTITIES" ("FIN 46" AND "FIN 46R")

In January 2003, the FASB issued FIN 46, which addressed whether certain types of entities, referred to as variable interest entities ("VIEs"), should be consolidated in a company's financial statements. A VIE is an entity in which the equity investors lack certain essential characteristics of a controlling financial interest or that lacks sufficient equity to finance its own activities without financial support provided by other entities. A company must consolidate a VIE if it has a variable interest that will absorb a majority of the expected losses if they occur, receive a majority of the entity's expected returns, or both.

In December 2003, the FASB issued FIN 46R to clarify and revise a number of key elements of FIN 46 including the definition of a VIE and the treatment of fees paid to decision makers.

The application of FIN 46 was required for VIEs created on or after February 1, 2003. For VIEs existing prior to that date, the effective date of the interpretation was delayed through the issuance of FASB Staff Position ("FSP") FIN 46-6, until the end of the first interim or annual period ending after December 15, 2003. However, the early adoption of FIN 46 was permitted for some or all of a reporting entity's affected VIEs. The adoption of FIN 46R is required by the end of the first reporting period ending after December 15, 2003 for VIEs considered to be special-purpose entities.

The Company elected to adopt FIN 46 as of July 1, 2003 for its existing VIEs. The impact of adopting FIN 46 as of July 1, 2003 was as follows:

- The Company issues funding agreements to a Special Purpose Entity ("SPE") (which is considered a VIE under FIN 46) used to issue Global Medium Term Notes ("GMTNs") to unrelated third parties. The GMTNs and certain equity interests issued by the SPE, to the extent they are exposed to all the risks and rewards of owning the funding agreements that collateralize the GMTNs, are considered variable interests in a VIE. Because the Company owns none of the variable interests issued by the VIE, it is not required to consolidate the VIE and will continue to classify funding agreements issued to the VIE as a component of contractholder funds.

- Consistent with the GMTN program, the Company's Euro Medium Term Notes ("EMTNs") program no longer requires consolidation. The impact of deconsolidating the EMTNs was the recognition of the funding agreements issued to the VIE as a component of contractholder funds, which is consistent with the previous accounting for this program.

- The Company was determined to be the primary beneficiary of a previously unconsolidated investment transaction considered to be a VIE under FIN 46. Accordingly, the VIE was consolidated as of July 1, 2003. As a result of consolidating the investment transaction, the Company's consolidated balance sheet as of September 30, 2003 included $50 million of assets classified as investments and long-term debt of $44 million. The holders of the consolidated long-term debt have no recourse to the equity of the Company as the sole source of payment of the liabilities is the assets of the VIE.

- The issuance of FIN 46R had no impact on the initial application of FIN

46 to the VIEs described above.

SFAS NO. 149, "AMENDMENT OF STATEMENT 133 ON DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES" ("SFAS NO. 149")

In April 2003, the FASB issued SFAS No. 149, which amends, clarifies and codifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and used for hedging activities under SFAS No. 133. While this statement applies primarily to certain derivative contracts and embedded derivatives entered into or modified after June 30, 2003, it also codifies conclusions previously reached by the FASB at various dates on certain implementation issues. The impact of adopting the provisions of the statement was not material to the Company's Consolidated Statements of Operations and Comprehensive Income or Financial Position.

DERIVATIVES IMPLEMENTATION GROUP STATEMENT 133 IMPLEMENTATION ISSUE NO. B36, "EMBEDDED DERIVATIVES: MODIFIED COINSURANCE ARRANGEMENTS AND DEBT INSTRUMENTS THAT INCORPORATE CREDIT RISK EXPOSURES THAT ARE UNRELATED OR ONLY PARTIALLY RELATED TO THE CREDITWORTHINESS OF THE OBLIGOR UNDER THOSE INSTRUMENTS"("IMPLEMENTATION ISSUE B36")

In April 2003, the FASB issued Implementation Issue B36, which became effective October 1, 2003. Implementation Issue B36 was applied to two of the Company's modified coinsurance agreements, and as a result, the embedded derivatives were bifurcated from the agreements and marked to market value at October 1, 2003. The effect of adopting Implementation Issue B36 was the recognition of a loss of $13 million, after-tax, which is reflected as a cumulative effect of a change in accounting principle on the Consolidated Statements of Operations and Comprehensive Income.

PENDING ACCOUNTING STANDARD

STATEMENT OF POSITION 03-01, "ACCOUNTING AND REPORTING BY INSURANCE ENTERPRISES FOR CERTAIN NONTRADITIONAL LONG-DURATION CONTRACTS AND FOR SEPARATE ACCOUNTS" ("SOP NO. 03-01")

In July 2003, the American Institute of Certified Public Accountants issued SOP 03-01, which applies to several of the Company's insurance products and product features. The effective date of the SOP is for fiscal years beginning after December 15, 2003. A provision of the SOP requires the establishment of reserves in addition to the account

balance for contracts containing certain features that provide guaranteed death or other insurance benefits and guaranteed income benefits. These reserves are not currently established by the Company. Recently, the Company implemented new actuarial models that permitted determination of the estimated impact on the Consolidated Statements of Operations and Comprehensive Income. Based on the Company's application of the estimation methodologies set forth in the SOP, the estimated after-tax impact of adopting the SOP on the Consolidated Statements of Operations and Comprehensive Income, including the related impact on deferred acquisition costs, is in the range of $150 million to $200 million as of January 1, 2004, based on market conditions that existed at December 31, 2003.

PROPOSED ACCOUNTING STANDARD

EMERGING ISSUES TASK FORCE TOPIC NO. 03-01, "THE MEANING OF OTHER-THAN-TEMPORARY IMPAIRMENT AND ITS APPLICATION TO CERTAIN INVESTMENTS" ("EITF NO. 03-01")

The Emerging Issues Task Force ("EITF") is currently deliberating EITF No. 03-01, which attempts to define other-than-temporary impairment and highlight its application to investment securities accounted for under both SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No. 115") and Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stocks" ("APB No. 18"). The current issue summary, which has yet to be finalized, proposes that if, at the evaluation date, the fair value of an investment security is less than its carrying value then an impairment exists for which a determination must be made as to whether the impairment is other-than-temporary. If it is determined that an impairment is other-than-temporary, then an impairment loss should be recognized equal to the difference between the investment's carrying value and its fair value at the reporting date. In recent deliberations, the EITF discussed different models to assess whether impairment is other-than-temporary for different types of investments (e.g. SFAS No. 115 marketable equity securities, SFAS No. 115 debt securities, and equity and cost method investments subject to APB No. 18) and subsequently decided to use a unified model. Due to the uncertainty of the final model (or models) that may be adopted, the estimated impact to the Company's Consolidated Statements of Operations and Comprehensive Income and Financial Position is presently not determinable. In November 2003, the EITF reached a consensus with respect to certain disclosures effective for fiscal years ending after December 15, 2003. Quantitative and qualitative disclosures are required for fixed income and marketable equity securities classified as available-for-sale or held-to-maturity under SFAS No. 115. The Company has included those disclosures at December 31, 2003 (see Note 6).

3. ACQUISITIONS AND DISPOSITIONS

2003 DISPOSITIONS

The Company announced its intention to exit the direct response distribution business. Based on its decision to sell the business, the Company recorded an estimated loss on the disposition of $44 million. An agreement was entered into with American Health and Life Insurance Company and Triton Insurance Company, subsidiaries of Citigroup Inc., to dispose of a portion of the direct response business. If approved by the state insurance departments, the transaction will be effective January 1, 2004.

2002 DISPOSITIONS

The Company terminated its joint venture agreement with Putnam Investments, LLC ("Putnam") and received a net settlement of $1.5 million from Putnam. The $1.5 million net settlement was comprised of the $2.3 million Putnam owed the Company for Allstate Distributors, LLC ("ADLLC") promotional expenses, partially offset by the $826 thousand purchase price for Putnam's 50% share of ADLLC (See Note 5 for further discussion).

The Company approved the disposal of its direct response long-term care business through a reinsurance transaction. As a result, the Company recognized a $3 million loss ($2 million after-tax) to reduce the carrying value of the long-term care business to its fair value.

2001 DISPOSITIONS

The Company disposed of its operations in Indonesia through a sale and purchase agreement with The Prudential Assurance Company Limited ("Prudential"), where Prudential acquired the Company's holdings in Pt Asuransi Jiwa Allstate, Indonesia. The Company recognized a loss on the disposition of $4 million ($3 million after-tax) and a $4 million tax benefit, not previously recognized, attributable to the inception-to-date losses of the subsidiary. The tax benefit was reported as a reduction to the Company's income tax expense on the Consolidated Statements of Operations

and Comprehensive Income.

2001 ACQUISITIONS

The Company acquired blocks of business from American Maturity Life Insurance Company ("American Maturity") via coinsurance contracts. Pursuant to the terms of the coinsurance contracts, the Company assumed: variable annuities, market value adjusted annuities, equity-indexed annuities, fixed annuities, and immediate annuities. The Company received assets consisting primarily of cash, investments and accrued investment income with a fair value in an amount equal to the corresponding assumed reserves for life-contingent contract benefits and contractholder funds resulting in no goodwill.

The Company acquired Provident National Assurance Company ("PNAC"), a broadly licensed inactive company that maintains authority to sell life insurance and variable annuity products in most states, from UnumProvident Corporation. The transaction was accounted for as a purchase and the excess of the acquisition cost over the fair value of PNAC's net assets acquired of $5 million was recorded as goodwill. The Company paid consideration of $14 million as part of the acquisition. PNAC's name was subsequently changed to Allstate Assurance Company, which was redomiciled in the State of Illinois.

4. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash investment exchanges and modifications, which primarily reflect refinancings of fixed income securities and mergers completed with equity securities, totaled $41 million, $98 million and $210 million for the years ended December 31, 2003, 2002 and 2001, respectively.

The adoption of FIN 46 resulted in the consolidation of one VIE causing increases in assets of $52 million and long-term debt of $45 million. See further discussion of the impacts of adopting FIN 46 in Note 2.

In 2003, the Company paid $98 million in dividends of investment securities to AIC.

Secured borrowing reinvestment transactions excluded from cash flows from investing activities in the Consolidated Statements of Cash Flows for the years ended December 31 are as follows:

(IN MILLIONS)	2003	2002	2001
Purchases	$ 2,757	$ 2,096	$ 8,128
Sales	(2,237)	(2,041)	(7,864)
Collections	-	(25)	-
Net change in short-term investments	150	(278)	130
Net purchases (sales)	$ 670	$ (248)	$ 394

The Company acquired the assets of businesses in 2001 (see Note 3) using cash and by assuming liabilities. The following is a summary of the effects of these transactions on the Company's consolidated financial position for the year ended December 31, 2001.

(IN MILLIONS)	
Fair value of assets acquired	$ (275)
Fair value of liabilities assumed	342
Net cash received	$ 67

5. RELATED PARTY TRANSACTIONS

BUSINESS OPERATIONS

The Company uses services performed by its affiliates, AIC and Allstate Investments LLC, and business facilities owned or leased and operated by AIC in conducting its business activities. In addition, the Company shares the services of employees with AIC. The Company reimburses its affiliates for the operating expenses incurred on behalf of the Company. The Company is charged for the cost of these operating expenses based on the level of services provided. Operating expenses, including compensation, retirement and other benefit programs allocated to the Company (see Note 15), were $299 million, $238 million, and

$208 million in 2003, 2002 and 2001, respectively. A portion of these expenses relate to the acquisition of business, which is deferred and amortized into income.

STRUCTURED SETTLEMENT ANNUITIES

The Company issued $119 million, $133 million and $117 million of structured settlement annuities, a type of immediate annuity, in 2003, 2002 and 2001, respectively, at prices determined based upon interest rates in effect at the time of purchase, to fund structured settlements in matters involving AIC. Of these amounts, $21 million, $27 million and $38 million relate to structured settlement annuities with life contingencies and are included in premium income for 2003, 2002, and 2001, respectively. In most cases, these annuities were issued under a "qualified assignment," which means the Company assumed AIC's obligation to make the future payments.

AIC issued surety bonds, in return for premiums of $531 thousand in 2001 to guarantee the payment of structured settlement benefits assumed (from both AIC and non-related parties) and funded by certain annuity contracts issued by the Company. In previous periods, the Company had entered into a General Indemnity Agreement pursuant to which it has indemnified AIC for any liabilities associated with the surety bonds and gives AIC certain collateral security rights with respect to the annuities and certain other rights in the event of any defaults covered by the surety bonds. For contracts written on or after July 1, 2001, AIC no longer issues surety bonds to guarantee the payment of structured settlement benefits. Alternatively, ALIC guarantees the payment of structured settlement benefits on all contracts issued on or after July 1, 2001.

Reserves recorded by the Company for annuities that are guaranteed by the surety bonds of AIC were $5.00 billion and $5.29 billion at December 31, 2003 and 2002, respectively.

BROKER/DEALER AGREEMENT

The Company receives underwriting and distribution services from Allstate Financial Services, LLC ("AFS"), an affiliated broker/dealer company, for certain variable annuity and variable life insurance contracts sold by Allstate exclusive agencies. The Company incurred $38 million, $35 million and $30 million of commission and other distribution expenses for the years ending December 31, 2003, 2002 and 2001, respectively.

ALIC received underwriting and distribution services from ADLLC, a broker/dealer company, for certain variable annuity contracts. Effective September 30, 2002, ALIC and Putnam terminated a joint venture agreement and ADLLC became a consolidated wholly owned subsidiary of ALIC as a result of ALIC's purchase of Putnam's 50% ownership therein. ALIC incurred $32 million and $80 million of commission and other distribution expenses from ADLLC for the years ending December 31, 2002 and 2001, respectively. Other distribution expenses included administrative, legal, financial management and sales support which ALIC provided to ADLLC, for which ALIC earned administration fees of $1 million and $1 million for the years ended December 31, 2002 and 2001, respectively. Other distribution expenses also included marketing expenses for subsidizing bonus interest crediting rates associated with ALIC's variable annuity dollar cost averaging program for which ADLLC reimbursed ALIC $1 million and $7 million for the years ended December 31, 2002 and 2001, respectively.

REINSURANCE TRANSACTIONS

The Company has a coinsurance contract with Columbia Universal Life Insurance Company ("Columbia"), an affiliate of the Company, to assume 100% of fixed annuity business in force as of June 30, 2000 and new business as written. In addition, the Company has a modified coinsurance contract with Columbia to assume 100% of traditional life and accident and health business in force on the effective date of July 1, 2000 and new business as written. Both agreements are continuous but may be terminated by either party with 30 days notice, material breach by either party, or by Columbia in the event of the Company's non-payment of reinsurance amounts due. As of May 31, 2001, Columbia ceased issuing new contracts. During 2003, 2002 and 2001, the Company assumed $17 million, $19 million and $21 million, respectively, in premiums and contract charges from Columbia.

The Company has a modified coinsurance contract with Allstate Reinsurance, Ltd. ("Allstate Re"), an affiliate of the Company, to cede 50% of certain fixed annuity business issued under a distribution agreement with PNC Bank NA. Under the terms of the contract, a trust has been established to provide protection for ceded liabilities. This agreement is continuous but may be terminated by either party with 60 days notice. During 2003, 2002 and 2001, the Company ceded $369 thousand, $329 thousand and $236 thousand, respectively, in contract charges to Allstate Re.

The Company has a contract to assume 100% of all credit insurance written by AIC. This agreement is continuous but may be terminated by either party with 60 days notice. The Company assumed premiums from AIC in the amount of $2 million, $18 million and $29 million in 2003, 2002 and 2001, respectively.

ALIC enters into certain intercompany reinsurance transactions with its wholly owned subsidiaries. ALIC enters into these transactions in order to maintain underwriting control and spread risk among various legal entities. These reinsurance agreements have been approved by the appropriate regulatory authorities. All significant intercompany transactions have been eliminated in consolidation.

Effective January 1, 2003, Northbrook Life Insurance Company ("NLIC"), a wholly owned subsidiary of ALIC, was merged into ALIC to achieve future cost savings and operational efficiency. The merger had no impact on the Company's results of operations or financial position.

PREFERRED STOCK

AIC guarantees the repayment of notes payable and the interest thereon issued to Morgan Stanley DW, Inc. under the terms of a distribution agreement with The Northbrook Corporation. The balance of the notes payable was $82 million at December 31, 2003.

INCOME TAXES

The Company is a party to a federal income tax allocation agreement with the Corporation (Note 12).

DEBT

The Company has entered into an inter-company loan agreement with the Corporation. The amount of inter-company loans available to the Company is at the discretion of the Corporation. The maximum amount of loans the Corporation will have outstanding to all its eligible subsidiaries at any given point in time is limited to $1.00 billion. No amounts were outstanding for the intercompany loan agreement during the three years ended December 31, 2003. The Corporation uses commercial paper borrowings, bank lines of credit and repurchase agreements to fund intercompany borrowings.

6. INVESTMENTS

FAIR VALUES

The amortized cost, gross unrealized gains and losses, and fair value for fixed income securities are as follows:

(IN MILLIONS)	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
AT DECEMBER 31, 2003				
U.S. government and agencies	$ 2,519	$ 688	$ (2)	$ 3,205
Municipal	1,675	60		

(18) 1,717
Corporate
28,866
2,115
(183)
30,798
Foreign
government
1,302 287
- 1,589
Mortgage-
backed
securities
10,540 269
(49)
10,760
Asset-
backed
securities
3,423 46
(41) 3,428
Redeemable
preferred
stock 76 6
(1) 81 ---
------ ---
----- ----
--- ------
--- Total
fixed
income
securities
$ 48,401 $
3,471 $
(294) $
51,578
=========
========
=======
=========
AT
DECEMBER
31, 2002
U.S.
government
and
agencies $
2,323 $
740 $ - $
3,063
Municipal
1,224 68
(3) 1,289
Corporate
24,618
1,859
(342)
26,135
Foreign
government
1,090 269
(2) 1,357
Mortgage-
backed
securities
9,912 474
(8) 10,378
Asset-
backed
securities
2,447 63
(37) 2,473
Redeemable
preferred
stock 109
2 (1) 110

-------- -
------ ---

Total

fixed income securities	$ 41,723	$ 3,475	$ (393)	$ 44,805
	=========	========	=======	=========

SCHEDULED MATURITIES

The scheduled maturities for fixed income securities are as follows at December 31, 2003:

(IN MILLIONS)	AMORTIZED COST	FAIR VALUE
Due in one year or less	$ 1,461	$ 1,492
Due after one year through five years	8,326	8,765
Due after five years through ten years	14,007	14,944
Due after ten years	10,644	12,189
	34,438	37,390
Mortgage- and asset-backed securities	13,963	14,188
Total	$ 48,401	$ 51,578

Actual maturities may differ from those scheduled as a result of prepayments by the issuers. Because of the potential for prepayment on mortgage- and asset-backed securities, they are not categorized by contractual maturity.

NET INVESTMENT INCOME

Net investment income for the years ended December 31 is as follows:

(IN MILLIONS)	2003	2002	2001

Fixed income securities	$ 2,875	$ 2,736	$ 2,536
Mortgage loans	415	403	366
Equity securities	8	17	23
Other	(121)	(68)	40
Investment income, before expense	3,177	3,088	2,965
Investment expense	95	110	132
Net investment income	$ 3,082	$ 2,978	$ 2,833

Net investment income from equity securities includes income from partnership interests of $7 million, $16 million and $15 million for the years ended December 31, 2003, 2002 and 2001, respectively.

REALIZED CAPITAL GAINS AND LOSSES, AFTER TAX

Realized capital gains and losses by security type for the years ended December 31 are as follows:

(IN MILLIONS)	2003	2002	2001
Fixed income securities	$ (181)	$ (137)	$ (134)
Equity securities	(10)	(9)	9
Other investments	107	(276)	(82)
Realized capital gains and losses, pre-tax	(84)	(422)	(207)
Income tax benefit	30		

	148	72	
Realized capital gains and losses, after tax	$ (54)	$ (274)	$ (135)

Realized capital gains and losses by transaction type for the years ended December 31 are as follows:

(IN MILLIONS)	2003	2002	2001
Investment write-downs	$ (178)	$ (309)	$ (150)
Sales	64	(97)	4
Valuation of derivative instruments	12	(36)	(64)
Settlement of derivative instruments	18	20	3
Realized capital gains and losses, pre-tax	(84)	(422)	(207)
Income tax benefit	30	148	72
Realized capital gains and losses, after-tax	$ (54)	$ (274)	$ (135)

Excluding the effects of calls and prepayments, gross gains of $173 million, $137 million and $183 million and gross losses of $184 million, $327 million and $237 million were realized on sales of fixed income securities during

2003, 2002 and 2001, respectively.

UNREALIZED NET CAPITAL GAINS AND LOSSES

Unrealized net capital gains and losses on fixed income, equity securities and derivative instruments included in accumulated other comprehensive income at December 31, 2003 are as follows:

(IN MILLIONS)	FAIR VALUE	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	UNREALIZED NET GAINS
Fixed income securities	$ 51,578	$ 3,471	$ (294)	$ 3,177
Equity securities	164	4	-	4
Derivative instruments	(2)	3	(5)	(2)
Total				3,179
Deferred income taxes, deferred policy acquisition costs, premium deficiency reserve and other				(2,126)
Unrealized net capital gains and losses				$ 1,053

At December 31, 2002, equity securities had gross unrealized gains of $4 million and gross unrealized losses of $12 million.

CHANGE IN UNREALIZED NET CAPITAL GAINS AND LOSSES

The change in unrealized net capital gains and losses for the years ended December 31 is as follows:

(IN MILLIONS)	2003	2002	2001
Fixed income			

securities
$ 95 $
1,574 $
279 Equity
securities
12 (13)
(43)
Derivative
instruments
(4) (6) 8
-------- -

Total 103
1,555 244
Deferred
income
taxes,
deferred
policy
acquisition
costs and
other
(102)
(1,139)
(168) ----
---- -----
----- ----

Increase
in
unrealized
net
capital
gains and
losses $ 1
$ 416 $ 76
========
==========
========

PORTFOLIO MONITORING

Inherent in the Company's evaluation of a particular security are assumptions and estimates about the operations of the issuer and its future earnings potential. Some of the factors considered in evaluating whether a decline in fair value is other than temporary are: 1) the Company's ability and intent to retain the investment for a period of time sufficient to allow for an anticipated recovery in value; 2) the recoverability of principal and interest; 3) the duration and extent to which the fair value has been less than cost for equity securities or amortized cost for fixed income securities; 4) the financial condition, near-term and long-term prospects of the issuer, including relevant industry conditions and trends, and implications of rating agency actions and offering prices; and 5) the specific reasons that a security is in a significant unrealized loss position, including market conditions which could affect access to liquidity.

The following table summarizes the gross unrealized losses and fair value of fixed income and equity securities by the length of time that individual securities have been in a continuous unrealized loss position at December 31, 2003:

LESS THAN
12 MONTHS
12 MONTHS
OR MORE --

- --------

TOTAL
NUMBER OF
FAIR
UNREALIZED
NUMBER OF
FAIR
UNREALIZED

							UNREALIZED
($ IN MILLIONS)	ISSUES	VALUE	LOSSES	ISSUES	VALUE	LOSSES	LOSSES
Fixed income securities							
U.S. government and agencies	10	$ 58	$ (2)	-	$ -	$ -	$ (2)
Municipal	56	406	(18)	-	-	-	(18)
Corporate	302	3,697	(136)	76	670	(47)	(183)
Foreign government	6	50	-	-	-	-	-
Mortgage-backed securities	204	2,903	(48)	40	83	(1)	(49)
Asset-backed securities	64	732	(15)	38	269	(26)	(41)
Redeemable preferred stock	3	20	(1)	-	-	-	(1)
Total	645	$ 7,866	$ (220)	154	$ 1,022	$ (74)	$ (294)

The above table includes $220 million of unrealized losses related to securities with an unrealized loss position less than 20% of cost or amortized cost, the degree of which suggests that these securities do not pose a high risk of being other than temporarily impaired. Of the $220 million, $198 million relate to unrealized losses on investment grade fixed income securities. Investment grade is defined as a security having a rating from the National Association of Insurance Commissioners ("NAIC") of 1 or 2; a Moody's equivalent rating of Aaa, Aa, A or Baa; a Standard & Poor's ("S&P") equivalent rating of AAA, AA, A or BBB; or a comparable internal rating. Unrealized losses on investment grade securities are principally related to changes in interest rates or changes in issuer and sector related credit spreads since the securities were acquired.

The remaining $74 million of unrealized losses relate to securities in unrealized loss positions greater than or equal to 20% of cost or amortized cost. Of the $74 million, $23 million relate to investment grade fixed income securities and $51 million relate to below investment grade fixed income securities. Of these amounts $10 million and $26 million, respectively, had been in an unrealized loss position for a period of twelve months or more as of December 31, 2003. $13 million of the unrealized losses from below investment grade securities are airline industry issues. The securities comprising the $74 million of unrealized losses were evaluated considering factors such as the financial condition and near-term and long-term prospects of the issuer and were determined to have adequate resources to fulfill contractual obligations, such as recent financings or bank loans, cash flows from operations, collateral or the position of a subsidiary with respect to its parent's bankruptcy.

As of December 31, 2003, the Company had the intent and ability to hold these investments for a period of time sufficient for them to recover in value.

MORTGAGE LOAN IMPAIRMENT

A mortgage loan is impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement.

The net carrying value of impaired loans at December 31, 2003 and 2002 was comprised of loans in foreclosure and delinquent loans of $4 million and $11 million, respectively. There were no restructured loans at December 31, 2003 and 2002. No valuation allowances were established for impaired loans because the impaired loans are collateral dependent loans and the fair value of the collateral was greater than the recorded investment in the loans.

Interest income for impaired loans is recognized on an accrual basis if payments are expected to continue to be received; otherwise the cash basis is used. For impaired loans that have been restructured, interest is accrued based on the principal amount at the adjusted interest rate. The Company recognized interest income of $2 million on impaired loans during 2003 and $1 million during both 2002 and 2001. The average balance of impaired loans was $23 million, $16 million and $27 million during 2003, 2002 and 2001, respectively.

There were no valuation allowances for mortgage loans at December 31, 2003 and 2002. Direct write-downs of mortgage loan gross carrying amounts were $3 million and $5 million in 2003 and 2002. There were no direct write-downs of mortgage loans in 2001. There were no net reductions to mortgage loans valuation allowances in 2003. For the years ended December 31, 2002 and 2001, net reductions to mortgage loan valuation allowances were $5 million and $300 thousand, respectively.

INVESTMENT CONCENTRATION FOR MUNICIPAL BOND PORTFOLIOS

The Company maintains a diversified portfolio of municipal bonds. The following table shows the principal geographic distribution of municipal bond issuers represented in the Company's portfolio. No other state represents more than 5% of the portfolio at December 31, 2003:

(% OF MUNICIPAL BOND PORTFOLIO CARRYING VALUE)	2003	2002
California	23.5%	27.2%
Illinois		

	10.8	3.7
Texas	10.2	13.0
Pennsylvania	5.9	7.2
New York	5.2	9.4

INVESTMENT CONCENTRATION FOR COMMERCIAL MORTGAGE PORTFOLIOS AND OTHER INVESTMENT INFORMATION

The Company's mortgage loans are collateralized by a variety of commercial real estate property types located throughout the United States. Substantially all of the commercial mortgage loans are non-recourse to the borrower. The following table shows the principal geographic distribution of commercial real estate represented in the Company's mortgage portfolio. No other state represented more than 5% of the portfolio at December 31, 2003:

(% OF COMMERCIAL MORTGAGE PORTFOLIO CARRYING VALUE)	2003	2002
California	14.3%	14.7%
Illinois	9.3	7.8
Texas	7.9	7.3
New Jersey	6.2	6.5
Florida	5.7	6.7
Pennsylvania	5.6	6.0
Georgia	5.6	4.3
New York	5.2	5.6

The types of properties collateralizing the commercial mortgage loans at December 31 are as follows:

(% OF COMMERCIAL MORTGAGE PORTFOLIO CARRYING VALUE)	2003	2002
Office buildings	31.7%	33.6%
Warehouse	24.4	20.8
Retail	22.0	19.5
Apartment complex	17.6	19.0
Industrial	1.6	1.8
Other	2.7	5.3
	100.0%	100.0%

The contractual maturities of the commercial mortgage loan portfolio as of December 31, 2003 for loans that were not in foreclosure are as follows:

	NUMBER OF LOANS	CARRYING VALUE ($ IN MILLIONS)	PERCENT
2004	22	$ 239	3.8%
2005	64	474	7.5
2006	92	723	11.4
2007	102	828	13.0
2008	99	759	11.9
Thereafter	503	3,331	52.4
Total	882	$ 6,354	100.0%

In 2003, $234 million of commercial mortgage loans were contractually due. Of these, 97% were paid as due and 3% were refinanced at prevailing market terms. None were foreclosed or in the process of foreclosure, and none were in the process of refinancing or restructuring discussions.

Included in fixed income securities are below investment grade assets totaling $3.69 billion and $3.66 billion at December 31, 2003 and 2002, respectively.

At December 31, 2003, the carrying value of investments, excluding equity securities, that were non-income producing during 2003 was $13 million.

At December 31, 2003, fixed income securities with a carrying value of $70 million were on deposit with regulatory authorities as required by law.

SECURITIES LENDING

The Company participates in securities lending programs, primarily for investment yield enhancement purposes, with third parties, mostly large brokerage firms. At December 31, 2003 and 2002, fixed income securities with a carrying value of $949 million and $1.04 billion, respectively, were on loan under these agreements. In return, the

Company receives cash that it invests and includes in short-term investments and fixed income securities, with an offsetting liability recorded in other liabilities and accrued expenses to account for the Company's obligation to return the collateral. Interest income on collateral, net of fees, was $4 million, $5 million and $6 million, for the years ended December 31, 2003, 2002 and 2001, respectively.

7. FINANCIAL INSTRUMENTS

In the normal course of business, the Company invests in various financial assets, incurs various financial liabilities and enters into agreements involving derivative financial instruments and other off-balance-sheet financial instruments. The fair value estimates of financial instruments presented below are not necessarily indicative of the amounts the Company might pay or receive in actual market transactions. Potential taxes and other transaction costs have not been considered in estimating fair value. The disclosures that follow do not reflect the fair value of the Company as a whole since a number of the Company's significant assets (including DAC and reinsurance recoverables, net) and liabilities (including reserve for life-contingent contract benefits, contractholder funds pertaining to interest-sensitive life contracts and deferred income taxes) are not considered financial instruments and are not carried at fair value. Other assets and liabilities considered financial instruments such as accrued investment income and cash are generally of a short-term nature. Their carrying values are deemed to approximate fair value.

FINANCIAL ASSETS

The carrying value and fair value of financial assets at December 31 are as follows:

	2003		2002	
(IN MILLIONS)	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Fixed income securities	$ 51,578	$ 51,578	$ 44,805	$ 44,805
Mortgage loans	6,354	6,737	5,883	6,398
Equity securities	164	164	183	183
Short-term investments	765	765	839	839
Policy loans	686	686	692	692
Separate Accounts	13,425	13,425	11,125	11,125

Fair values of publicly traded fixed income securities are based upon quoted market prices or dealer quotes. The fair value of non-publicly traded securities, primarily privately placed corporate obligations, is based on either widely accepted pricing valuation models, which use internally developed ratings and independent third party data (e.g., term structures and current publicly traded bond prices) as inputs, or independent third party pricing sources. Equity securities are valued based principally on quoted market prices. Mortgage loans are valued based on discounted contractual cash flows. Discount rates are selected using current rates at which similar loans would be made to borrowers with similar characteristics, using similar properties as collateral. Loans that exceed 100% loan-to-value are valued at the estimated fair value of the underlying collateral. Short-term investments are highly liquid investments with maturities of less than one year whose carrying values are deemed to approximate fair value. The carrying value of policy loans is deemed to approximate fair value. Separate accounts assets are carried in the Consolidated Statements of Financial Position at fair value based on quoted market prices.

FINANCIAL LIABILITIES

The carrying value and fair value of financial liabilities at December 31 are as follows:

(IN MILLIONS)	2003 CARRYING VALUE	2003 FAIR VALUE	2002 CARRYING VALUE	2002 FAIR VALUE
Contractholder funds on investment contracts	$ 38,365	$ 36,974	$ 32,781	$ 32,175
Long-term debt	45	45	-	-
Security repurchase agreements	1,918	1,918	1,236	1,236
Separate Accounts	13,425	13,425	11,125	11,125

Contractholder funds include interest-sensitive life insurance contracts and investment contracts. Interest-sensitive life insurance contracts are not considered to be financial instruments subject to fair value disclosure requirements. The fair value of investment contracts is based on the terms of the underlying contracts. Fixed annuities are valued at the

account balance less surrender charges. Immediate annuities without life contingencies, GICs and funding agreements are valued at the present value of future benefits using current interest rates. Market value adjusted annuities' fair value is estimated to be the market adjusted surrender value. Equity-indexed annuity contracts' fair value approximates carrying value since the embedded equity options are carried at market value in the consolidated financial statements.

The fair value of long-term debt is determined using discounted cash flow calculations. Security repurchase agreements are valued at carrying value due to their short-term nature. Separate accounts liabilities are carried at the fair value of the underlying assets.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company primarily uses derivative financial instruments to reduce its exposure to market risk (principally interest rate, equity price and foreign currency risk) and in conjunction with asset/liability management. The Company does not buy, sell or hold these instruments for trading purposes.

The following table summarizes the notional amounts, fair value and carrying value of the Company's derivative financial instruments at December 31, 2003:

CARRYING
CARRYING
NOTIONAL FAIR
VALUE VALUE (IN

MILLIONS) AMOUNT
VALUE (1) ASSETS
(1)
(LIABILITIES)
(1) ---------- -
--------- ------
---- ----------
----- INTEREST
RATE CONTRACTS
Interest rate
swap agreements
$ 10,423 $ (220)
$ (90) $ (130)
Financial
futures
contracts 678
(1) - (1)
Interest rate
cap and floor
agreements 4,675
84 54 30 -------
--- ---------- -
--------- ------

Total interest
rate contracts
15,776 (137)
(36) (101) -----
----- ---------
--------- -----

EQUITY AND INDEX
CONTRACTS
Options,
financial
futures, and
warrants 829 - 3
(3) ---------- -
--------- ------
---- ----------
------ FOREIGN
CURRENCY
CONTRACTS
Foreign currency
swap agreements
1,689 454 436 18
Foreign currency
futures
contracts 5 - -
- ---------- ---
------- --------
-- ------------
---- Total
foreign currency
contracts 1,694
454 436 18
EMBEDDED
DERIVATIVE
FINANCIAL
INSTRUMENTS
Conversion
options in fixed
income
securities 429
147 147 -
Equity-indexed
options in life
and annuity
product
contracts 1,297
9 - 9 Forward
starting options
in annuity
product
contracts 1,464
(2) - (2) Put
options in
variable product
contracts 19 - -
- Credit default
swaps agreements

48 (1) (1) - ---
------- --------
-- ---------- --

Total embedded
derivative
financial
instruments
3,257 153 146 7
---------- -----
----- ----------

- OTHER
DERIVATIVE
FINANCIAL
INSTRUMENTS
Synthetic
guaranteed
investment
contracts 1 - -
- Reinsurance of
guaranteed
minimum income
annuitization
options in
variable
contracts 34 28
28 - Forward
contracts for
TBA mortgage
securities 156
(1) - (1) ------
---- ----------
---------- -----

Total other
derivative
financial
instruments 191
27 28 (1) ------
---- ----------
---------- -----

Total derivative
financial
instruments $
21,747 $ 497 $
577 $ (80)
==========
==========
==========
=================

- ----------
(1) Carrying value include the effects of legally enforceable master netting agreements. Fair value and carrying value of the assets and liabilities exclude accrued periodic settlements, which are reported in accrued investment income.

The following table summarizes the notional amount, fair value and carrying value of the Company's derivative financial instruments at December 31, 2002:

CARRYING
CARRYING
NOTIONAL FAIR
VALUE VALUE (IN
MILLIONS) AMOUNT
VALUE (1) ASSETS
(1)
(LIABILITIES)
(1) ---------- -
--------- ------
---- ----------
------ INTEREST
RATE CONTRACTS

Interest rate
swap agreements
$ 9,091 $ (307)
$ (42) $ (265)
Financial
futures
contracts 384 -
- - Interest
rate cap and
floor agreements
1,581 44 9 35 --
-------- -------
--- ---------- -

Total interest
rate contracts
11,056 (263)
(33) (230) -----
----- ----------
---------- -----

EQUITY AND INDEX
CONTRACTS
Options,
financial
futures, and
warrants 1,099 5
10 (5) ---------
- ---------- ---
------- --------

FOREIGN CURRENCY
CONTRACTS
Foreign currency
swap agreements
1,762 285 259 26
Foreign currency
futures 11 - - -
---------- -----
----- ----------

- Total foreign
currency
contracts 1,773
285 259 26 -----
----- ----------
---------- -----

EMBEDDED
DERIVATIVE
FINANCIAL
INSTRUMENTS
Conversion
options in fixed
income
securities 480
122 122 -
Equity-indexed
options in life
and annuity
product
contracts 1,119
32 - 32 Forward
starting options
in annuity
product
contracts 1,363
(3) - (3) Put
options in
variable product
contracts 48 - -
- Credit default
swaps agreements
25 (2) (2) - ---
------- --------
-- ---------- --

Total embedded
derivative
financial
instruments

	3,035	149	120	29
OTHER DERIVATIVE FINANCIAL INSTRUMENTS				
Synthetic guaranteed investment contracts	6	-	-	-
Reinsurance of guaranteed minimum income annuitization options in variable contracts	32	29	29	-
Forward contracts for TBA mortgage securities	-	-	-	-
Total other derivative financial instruments	38	29	29	-
Total derivative financial instruments	$ 17,001	$ 205	$ 385	$ (180)

(1) Carrying value include the effects of legally enforceable master netting agreements. Fair value and carrying value of the assets and liabilities exclude accrued periodic settlements, which are reported in accrued investment income.

The notional amounts specified in the contracts are used to calculate the exchange of contractual payments under the agreements, and are not representative of the potential for gain or loss on these agreements.

Fair value, which is equal to the carrying value, is the estimated amount that the Company would receive (pay) to terminate the derivative contracts at the reporting date. For exchange traded derivative contracts, the fair value is based on dealer or exchange quotes. The fair value of non-exchange traded derivative contracts, including embedded derivative financial instruments subject to bifurcation, is based on either independent third party pricing sources or widely accepted pricing and valuation models which use independent third party data as inputs.

The Company manages its exposure to credit risk by utilizing highly rated counterparties, establishing risk control limits, executing legally enforceable master netting agreements and obtaining collateral where appropriate. The Company uses master netting agreements for over-the-counter derivative transactions, including interest rate swap, foreign currency swap, interest rate cap, interest rate floor and credit default swap agreements. These agreements permit either party to net payments due for transactions covered by the agreements. Under the provisions of the agreements, collateral is either pledged or obtained when certain predetermined exposure limits are exceeded. As of December 31, 2003, counterparties pledged $333 million in cash to the Company under these agreements. To date, the Company has not incurred any losses on derivative financial instruments due to counterparty nonperformance. Other derivatives including futures and certain option contracts are traded on organized exchanges, which require margin deposits and guarantee the execution of trades, thereby mitigating any associated potential credit risk.

Credit exposure represents the Company's potential loss if all of the counterparties failed to perform under the contractual terms of the contracts and all collateral, if any, became worthless. This exposure is measured by the fair value of freestanding derivative contracts with a positive fair value at the reporting date reduced by the effect, if any, of master netting agreements.

The following table summarizes the counterparty credit exposure by counterparty credit rating at December 31, as it relates to interest rate swap, currency swap, interest rate cap, interest rate floor and credit default swap agreements.

($ IN MILLIONS)

	2003				2002			
RATING (1)	NUMBER OF COUNTER-PARTIES	NOTIONAL AMOUNT	CREDIT EXPOSURE(2)	EXPOSURE, NET OF COLLATERAL(2)	NUMBER OF COUNTER-PARTIES	NOTIONAL AMOUNT	CREDIT EXPOSURE(2)	EXPOSURE, NET OF COLLATERAL(2)
AAA	2	$ 1,819	$ -	$ -	2	$ 1,530	$ -	$ -
AA	2	1,600	146	22	2	1,399	91	24
AA-	4	4,539	19	19	5	3,209	-	-
A+	6	6,783	233	25	6	5,580	135	10
A	2	2,067	1	1	1	716	-	-
Total	16	$ 16,808	$ 399	$ 67	16	$ 12,434	$ 226	

$ 34
=========
=========
===========
=============
=========
========
===========
=============

- ----------
(1) Rating is the lower of Standard & Poor's or Moody's ratings.
(2) For each counterparty, only over-the-counter derivatives with a net positive market value are included.

Market risk is the risk that the Company will incur losses due to adverse changes in market rates and prices. Market risk exists for all of the derivative financial instruments the Company currently holds, as these instruments may become less valuable due to adverse changes in market conditions. To limit the risk, the Company's senior management has established risk control limits. In addition, changes in fair value of the derivative financial instruments that the Company uses for risk management purposes are generally offset by the change in the fair value or cash flows of the hedged risk component of the related assets, liabilities or forecasted transactions.

The Company reclassified pretax net losses of $756 thousand and $259 thousand related to cash flow hedges to net income from accumulated other comprehensive income during 2003 and 2002, respectively. An estimated $1 million of pretax net gains will be released from accumulated other comprehensive income to net income during 2004.

The following table presents information about the nature and accounting treatment of the Company's primary derivative instruments. Included in the table is a description of the individual derivative instruments, the risk management strategies to which they relate, and the financial statement reporting for the derivative instruments in the Company's consolidated financial statements as of and for the periods ending December 31, 2003 and 2002. Amounts reported are in millions on a pre-tax basis.

ASSET /
(LIABILITY)
INCOME /
(EXPENSE)
DESCRIPTION,
RISK MANAGEMENT
STRATEGY AND --

- INSTRUMENT
FINANCIAL
STATEMENT
REPORTING 2003
2002 2003 2002
2001 - --------

--- INTEREST
RATE CONTRACTS:
INTEREST RATE
DESCRIPTION
SWAP AGREEMENTS
Swap agreements
are contracts
that
periodically
exchange the
difference
between two

designated sets of cash flows, (fixed to variable rate, variable to fixed rate, or variable to variable rate) based upon designated market rates or rate indices and a notional amount. Master netting agreements are used to minimize credit risk. In addition, when applicable, parties are required to post collateral. As of December 31, 2003, the Company pledged to counterparties $0.4 million of securities as collateral for over-the-counter instruments. RISK MANAGEMENT STRATEGY Primarily used to change the interest rate characteristics of existing assets or liabilities to facilitate asset-liability management. STATEMENT OF FINANCIAL POSITION - Fair values are reported as follows: - Other investments. $ (90) $ (42) - Other liabilities and accrued expenses. (130) (265) - When hedge accounting is applied, the carrying values of the hedged items are adjusted for changes in the fair value of the hedged risks. The fair value of hedged risks are reported as follows: - Fixed income securities. 295 409 - Mortgage loans. 56 62 -

Contractholder funds. (103) (141) STATEMENT OF OPERATIONS - For hedge accounting, changes in fair value of the instruments are matched together with changes in fair value of the hedged risks and are reported as follows: - Net investment income. $ 100 $ (390) $ (93) - Life and annuity contract benefits. (38) 94 47 - Hedge ineffectiveness is reported as realized capital gains and losses. 9 (15) 6 - When hedge accounting is not applied, changes in fair value of the instruments and the periodic accrual and settlements are reported in realized capital gains and losses. 2 55 (2) --

FINANCIAL DESCRIPTION FUTURES Financial futures contracts are commitments to purchase or CONTRACTS sell designated financial instruments at a future date for a specified price or yield. These contracts are traded on organized exchanges and cash settle on a daily basis. The exchange requires margin deposits as well as daily cash settlements of margin. As of December 31, 2003, the Company pledged margin deposits in the form of marketable securities totaling $7 million. RISK MANAGEMENT STRATEGIES Generally used to manage interest rate risk related to fixed income securities and certain annuity contracts. Financial futures are also used to reduce interest rate risk related to forecasted purchases and sales of marketable investment securities. STATEMENT OF FINANCIAL POSITION Fair values are reported as follows: $ - $ - - Other investments. (1) - - Other liabilities and accrued expenses. STATEMENT OF OPERATIONS Under non-hedge accounting, changes in fair value of the instruments, some of which are recognized through daily cash settlements, are classified consistent with the risks being economically hedged and are reported as follows: $ 10 $ (2) $ (3) - Realized capital gains and losses. - (1) - - Life and annuity contract benefits. ---

ASSET / (LIABILITY) INCOME / (EXPENSE) DESCRIPTION, RISK MANAGEMENT STRATEGY AND -- --------------- --------------- --------------- - INSTRUMENT FINANCIAL STATEMENT REPORTING 2003 2002 2003 2002 2001 - -------- --------------- --------------- --------------- --------------- --------------- --------------- --------------- --------------- --- INTEREST RATE DESCRIPTION CAP AND In exchange for a premium, these derivative contracts FLOOR provide the holder with the right to receive at a future AGREEMENTS date, the amount, if any, by which a specified market interest rate exceeds the fixed cap rate or falls below the fixed floor rate, applied to a notional amount. RISK MANAGEMENT STRATEGIES Used to reduce exposure to rising or falling interest rates relative to certain existing assets and liabilities in conjunction with asset-liability management. STATEMENT OF FINANCIAL POSITION Fair values are reported as follows: - Other investments. $ 54 $ 9 - Other liabilities and accrued expenses. 30 35

STATEMENT OF OPERATIONS Under non-hedge accounting, changes in fair value of the instruments and the periodic accruals and settlements are reported in realized capital gains and losses. $ (20) $ (5) $ (1) - -- -- EQUITY AND INDEX CONTRACTS: OPTIONS, DESCRIPTION FINANCIAL These indexed derivative instruments provide returns at FUTURES, AND specified or optional dates based upon a specified index WARRANTS applied to the instrument's notional amount. Index futures are traded on organized exchanges and cash settle on a daily basis. The exchange requires margin deposits as well as daily cash settlements of margin. The Company pledged $35 million of securities in the form of margin deposits as of December 31, 2003. RISK MANAGEMENT STRATEGIES Indexed instruments are primarily used to reduce the market risk associated with certain annuity and deferred compensation liability contracts. STATEMENT OF FINANCIAL POSITION Fair values are reported as follows: - Equity securities $ 2 $ 8 - Other investments. 1 2 - Other liabilities and accrued expenses. (3) (5) STATEMENT OF OPERATIONS Under non-hedge accounting, changes in fair values of the instruments, some of which are recognized through daily cash settlements, are classified on one line consistent with the risk being economically hedged and reported as follows: - Life and annuity contract benefits. $ 80 $ (66) $ (56) - Realized capital gains and losses. 1 1 - - --

FOREIGN CURRENCY CONTRACTS: FOREIGN DESCRIPTION CURRENCY These derivative contracts involve the periodic exchange of SWAP consideration based on relative changes in two designated AGREEMENTS currencies and, if applicable, differences between fixed rate and variable cash flows or two different variable cash flows, all based on a pre-determined notional amount. RISK MANAGEMENT STRATEGIES These

agreements are entered into primarily to manage the foreign currency risk associated with issuing foreign currency denominated funding agreements. In addition to hedging foreign currency risk, they may also change the interest rate characteristics of the funding agreements for asset-liability management purposes. STATEMENT OF FINANCIAL POSITION - Fair values are reported as follows: - Other investments. $ 436 $ 259 - Other liabilities and accrued expenses. 18 26 - Since hedge accounting is applied, the carrying value of the hedged item, contractholder funds, is adjusted for changes in the fair value of the hedged risk. (447) (285) STATEMENT OF OPERATIONS - Under hedge accounting, changes in fair value of the instruments are matched together with the changes in fair values of the hedged risks and are reported in life and annuity contract benefits. $ 171 $ 263 $ 22 - Hedge ineffectiveness is reported in realized capital gains and losses. 7 - - - -----------
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

ASSET /
(LIABILITY)
INCOME /
(EXPENSE)
DESCRIPTION,
RISK
MANAGEMENT
STRATEGY AND

INSTRUMENT
FINANCIAL
STATEMENT
REPORTING
2003 2002
2003 2002
2001 - ------

CONVERSION
DESCRIPTION
OPTIONS IN
These
securities
have embedded
options,
which provide
the FIXED
INCOME
Company with
the right to
convert the
instrument
into a
SECURITIES
predetermined
number of
shares of
common stock.
Securities
owned and
subject to
bifurcation
include
convertible
bonds and
convertible
redeemable
preferred
stocks.
STATEMENT OF
FINANCIAL
POSITION Fair
value is
reported
together with
the host
contracts in
fixed income
securities. $
147 $ 122

STATEMENT OF OPERATIONS Changes in fair value are reported in realized capital gains and losses. $ 22 $ (55) $ (70) - ------ ------------- ------------- ------------- ------------- ------------- ------------- ------------- ------------- ------------- --------

OTHER STATEMENT OF FINANCIAL POSITION DERIVATIVES - Fair values are reported as follows: - Fixed income securities. $ (1) $ (2) - Other assets. 28 29 - Contractholder funds. (21) - STATEMENT OF OPERATIONS - Changes in fair value are reported as follows: - Realized capital gains and losses. $ (2) $ (1) $ (1) - Life and annuity contract benefits. (26) 86 (32) - ----------- ------------- ------------- ------------- ------------- ------------- ------------- ------------- ------------- ------------- ---

OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS

The contractual amounts and fair values of off-balance-sheet financial instruments at December 31 are as follows:

2003 2002 ---------- ---------- ---------- ---------- CONTRACTUAL FAIR CONTRACTUAL FAIR (IN MILLIONS) AMOUNT VALUE AMOUNT

VALUE ---- ------- -- --- ------ ----- ---- --

Commitments to invest	$ 118	$ -	$ 51	$ -
Private placement commitments	43	-	69	-
Commitments to extend mortgage loans	67	1	62	1
Credit guarantees	87	-	29	(1)

Except for credit guarantees, the contractual amounts represent the amount at risk if the contract is fully drawn upon, the counterparty defaults and the value of any underlying security becomes worthless. Unless noted otherwise, the Company does not require collateral or other security to support off-balance-sheet financial instruments with credit risk.

Commitments to invest generally represent commitments to acquire financial interests or instruments. The Company enters into these agreements to allow for additional participation in certain limited partnership investments. Because the equity investments in the limited partnerships are not actively traded, it is not practical to estimate the fair value of these commitments.

Private placement commitments represent conditional commitments to purchase private placement debt and equity securities at a specified future date. The Company regularly enters into these agreements in the normal course of business. The fair value of these commitments generally cannot be estimated on the date the commitment is made as the terms and conditions of the underlying private placement securities are not yet final.

Commitments to extend mortgage loans are agreements to lend to a borrower provided there is no violation of any condition established in the contract. The Company enters these agreements to commit to future loan fundings at a predetermined interest rate. Commitments generally have fixed expiration dates or other termination clauses. Commitments to extend mortgage loans, which are secured by the underlying properties, are valued based on estimates of fees charged by other institutions to make similar commitments to similar borrowers.

Credit guarantees represent conditional commitments included in certain fixed income securities owned by the Company. These commitments provide for obligations to exchange credit risk or to forfeit principal due, depending on the nature or occurrence of credit events for the referenced entities. The Company enters into these transactions in order to achieve higher yields than direct investment in referenced entities. The fees for assuming the conditional commitments are reflected in the interest receipts reported in net investment income over the lives of the contracts. The fair value of the credit guarantees are estimates of the conditional commitments only and are calculated using quoted

market prices or valuation models, which incorporate external market data.

In the event of bankruptcy or other default of the referenced entities, the Company's maximum amount at risk, assuming the value of the referenced credits becomes worthless, is the fair value of the subject fixed income securities, which totaled $87 million at December 31, 2003. The Company includes the impact of credit guarantees in its analysis of credit risk, and the referenced credits were current to their contractual terms at December 31, 2003.

8. RESERVE FOR LIFE-CONTINGENT CONTRACT BENEFITS AND CONTRACTHOLDER FUNDS

At December 31, the reserve for life-contingent contract benefits consists of the following:

(IN MILLIONS)	2003	2002
Immediate annuities:		
Structured settlement annuities	$ 5,989	$ 5,683
Other immediate annuities	2,376	2,138
Traditional Life	1,822	1,692
Other	293	220
Total reserve for life-contingent contract benefits	$ 10,480	$ 9,733

The following table highlights the key assumptions generally used in calculating the reserve for life-contingent contract benefits:

PRODUCT	MORTALITY	INTEREST RATE	ESTIMATION METHOD
Structured settlement annuities	U.S. population with projected calendar year improvements; age setbacks for impaired lives grading to standard	Interest rate assumptions range from 5.5% to 11.7%	Present value of contractually specified future benefits
Other immediate annuities			

1983 group annuity mortality Interest rate Present value of table assumptions range expected future from 1.9% to 11.5% benefits based on historical experience Traditional life Actual company experience Interest rate Net level premium plus loading assumptions range reserve method from 4.0% to 11.3% using the Company's withdrawal experience rates Other Actual company experience Unearned premium; plus loading additional contract reserves as for traditional life

To the extent the unrealized gains on fixed income securities would result in a premium deficiency had those gains actually been realized, a premium deficiency reserve has been recorded for certain immediate annuities with life contingencies. A liability of $932 million and $797 million is included in the reserve for life-contingent contract benefits with respect to this deficiency as of December 31, 2003 and 2002, respectively. The offset to this liability is recorded as a reduction of the unrealized net capital gains included in accumulated other comprehensive income.

At December 31, contractholder funds consists of the following:

(IN MILLIONS) 2003 2002 --- ------- ----- ----- Interest-sensitive life $ 6,459 $ 6,037 Investment contracts: Fixed annuities 28,524 23,781 Guaranteed

investment
contracts
1,066 1,903
Funding
agreements
7,250 5,199
Other
investment
contacts
1,615 1,938 -
--------- ---
------- Total
contractholder
funds $
44,914 $
38,858
==========
==========

The following table highlights the key contract provisions that determine contractholder funds:

PRODUCT INTEREST
RATE
WITHDRAWAL/SURRENDER
CHARGES - ----------

- ------------------
---------------- ---

Interest-sensitive
life Interest rates
credited range
Either a percentage
of account balance
or from 2.0% to
7.25% dollar amount
grading off
generally over 20
years Fixed
annuities Interest
rates credited range
Either a declining
or a level
percentage from 1.3%
to 10.2% for charge
generally over nine
years or less.
immediate annuities
and 0% to
Additionally,
approximately 25% of
fixed 15.5% for
fixed annuities
(which annuities are
subject to market
value include
equity-indexed
annuities adjustment
for discretionary
withdrawals. whose
returns are indexed
to the S&P 500)
Guaranteed
investment contracts
Interest rates
credited range
Generally not
subject to
discretionary from
2.95% to 8.45%
withdrawal Funding
agreements Interest
rates credited range
Not applicable from
1.1% to 7.1%
(excluding currency-
swapped medium-term
notes) Other

investment contracts		
Interest rates credited range	Not applicable	from 1.0% to 7.9%

Contractholder funds include funding agreements sold to VIEs issuing medium-term notes. The VIEs, Allstate Life Funding, LLC and Allstate Life Global Funding II, are used exclusively for the Company's funding agreements supporting medium-term note programs.

Contractholder funds activity for the years ended December 31 is as follows:

(IN MILLIONS)	2003	2002
Balance, beginning of year	$ 38,858	$ 32,301
Deposits	9,841	8,917
Interest credited to contractholder funds	1,764	1,691
Benefits and withdrawals	(2,692)	(2,522)
Maturities of institutional products	(2,163)	(1,056)
Contract charges	(561)	(520)
Transfers (to) from Separate Accounts	(416)	(474)
Fair value adjustments for institutional products	131	363
Other adjustments	152	158
Balance, end of year	$ 44,914	$ 38,858

9. REINSURANCE

The Company reinsures certain of its risks to other insurers under yearly renewable term, coinsurance, and modified coinsurance agreements. These agreements result in the passing of the agreed-upon percentage of risk to the

reinsurer in exchange for negotiated reinsurance premium payments. Modified coinsurance is similar to coinsurance except that the cash and investments that support the liability for contract benefits are not transferred to the assuming company and settlements are made on a net basis between the companies.

For discussion of reinsurance agreements with related parties, see Note 5.

The Company ceded 90%, 80% or 60% of the mortality risk on certain life policies, depending upon the issue year and product, to a pool of fourteen unaffiliated reinsurers. In November 1998, the Company began ceding mortality risk on new business in excess of $2 million per life for individual coverage. For business sold prior to November 1998, the Company ceded mortality risk in excess of $1 million per life for individual coverage. As of December 31, 2003, $176.91 billion of life insurance in force was ceded to other companies.

The Company had a contract to assume 100% of all insurance written by Sears Life Insurance Company ("SLIC"). This agreement was terminated effective December 31, 2003. The Company assumed $85 million, $76 million and $64 million in premiums from SLIC for the years ended December 31, 2003, 2002 and 2001, respectively.

On January 2, 2001, the Company acquired blocks of business from American Maturity via coinsurance contracts. Pursuant to the terms of the coinsurance contracts, the Company assumed: variable annuities, market value adjusted annuities, equity-indexed annuities, fixed annuities, and immediate annuities. The Company received assets consisting primarily of cash, investments and accrued investment income with a fair value in an amount equal to the corresponding assumed reserves for life contingent contract benefits and contractholder funds.

In addition, the Company has a modified coinsurance contract with Alpine to cede 50% of certain variable annuity business issued on or after May 1, 1999 under a distribution agreement with PNC. This agreement is continuous but may be terminated by either party with 120 days notice.

The Company has entered into reinsurance agreements in conjunction with the disposition of certain blocks of business.

The effects of reinsurance on premiums and contract charges for the years ended December 31 are as follows:

(IN MILLIONS)	2003	2002	2001
PREMIUMS AND CONTRACT CHARGES			
Direct	$ 2,140	$ 2,150	$ 2,085
Assumed Affiliate	19	43	41
Non-affiliate	90	76	64
Ceded--non-affiliate	(418)	(393)	(323)
Premiums and contract charges, net of reinsurance	$ 1,831	$ 1,876	$ 1,867

The effects of reinsurance on contract benefits for the years ended

December 31 are as follows:

(IN MILLIONS)	2003	2002	2001
CONTRACT BENEFITS			
Direct	$ 1,880	$ 1,881	$ 1,693
Assumed			
Affiliate	4	11	36
Non-affiliate	47	38	33
Ceded--non-affiliate	(336)	(387)	(277)
Contract benefits, net of reinsurance	$ 1,595	$ 1,543	$ 1,485

Reinsurance recoverables, net in the Company's Consolidated Statements of Financial Position were $1.19 billion and $1.05 billion, at December 31, 2003 and 2002, respectively. The reinsurance recoverable and reinsurance payable balances pertaining to related party reinsurance agreements were not material at December 31, 2003 and 2002. No single reinsurer has a material obligation to the Company nor is the Company's business substantially dependent upon any reinsurance contract.

10. DEFERRED POLICY ACQUISITION COSTS

Deferred policy acquisition costs for the years ended December 31 are as follows:

(IN MILLIONS)	2003	2002	2001
BALANCE, BEGINNING OF YEAR	$ 2,915	$ 2,997	$ 2,926
Acquisition costs deferred	732	666	637
Amortization charged to income	(479)	(418)	

(365)
Effect of
unrealized
gains and
losses 34
(330) (201)

BALANCE,
END OF YEAR
$ 3,202 $
2,915 $
2,997
==========
==========
==========

Amortization charged to income includes $46 million, $2 million and $17 million in 2003, 2002 and 2001, respectively, due to realized capital gains and losses.

11. COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

The Company leases certain office facilities and computer equipment. Total rent expense for all leases was $2 million, $2 million and $3 million in 2003, 2002 and 2001, respectively.

Minimum rental commitments under noncancelable operating leases with an initial or remaining term of more than one year as of December 31, 2003 are as follows:

(IN MILLIONS)

2004	$ 1
2005	1
2006	-
2007	-
2008	-
Thereafter	-
	$ 2

GUARANTY FUNDS

Under state insurance guaranty fund laws, insurers doing business in a state can be assessed, up to prescribed limits, for certain obligations of insolvent insurance companies to policyholders and claimants. Amounts assessed to each company are typically related to its proportion of business written in a particular state. The Company's expenses related to these funds have been immaterial.

GUARANTEES

The Company owns certain fixed income securities that obligate the Company to exchange credit risk or to forfeit principal due, depending on the nature or occurrence of specified credit events for the referenced entities. Additionally, the Company has written credit default swaps that obligate the Company to make a payment upon the occurrence of specified credit events. In the event all such specified credit events were to occur, the Company's maximum amount at risk on these fixed income securities and written credit default swaps, as measured by the par value and notional value, respectively, was $132 million at December 31, 2003. The obligations associated with these fixed income securities and written credit default swaps expire at various times during the next seven years.

Lincoln Benefit Life Company ("LBL"), a wholly owned subsidiary of ALIC, has issued universal life insurance contracts to third parties who finance the premium payments on the universal life insurance contracts through a commercial paper program. LBL has issued a repayment guarantee on the outstanding commercial paper balance that is fully collateralized by the cash surrender value of the universal life insurance contracts. At December 31, 2003, the amount due under the commercial paper program is $300 million and the cash surrender value of the policies is $306 million. The repayment guarantee expires April 30, 2006.

In the normal course of business, the Company provides standard indemnifications to counterparties in contracts in connection with numerous transactions, including indemnifications for breaches of representations and warranties, taxes and certain other liabilities, such as third party lawsuits. The indemnification clauses are often standard contractual terms and were entered into in the normal course of business based on an assessment that the risk of loss would be remote. The terms of the indemnifications vary in duration and nature. In many cases, the maximum obligation is not

explicitly stated and the contingencies triggering the obligation to indemnify have not occurred and are not expected to occur. Because the obligated amounts of the indemnifications are not explicitly stated in many cases, the maximum amount of the obligation under such indemnifications is not determinable. Historically, the Company has not made any material payments pursuant to these obligations.

Pursuant to their respective bylaws, the Company and its subsidiaries indemnify their respective directors, officers and other individuals serving at the request of the Company as a director or officer or in a similar capacity in another entity for liabilities and expenses arising from litigation in specified circumstances. Since these indemnifications are generally not subject to limitation with respect to duration or amount, the Company does not believe that it is possible to determine the maximum potential amount due under these indemnifications.

The aggregate liability balance related to all guarantees was not material as of December 31, 2003.

REGULATION

The Company is subject to changing social, economic and regulatory conditions. Recent state and federal regulatory initiatives and proceedings have included efforts to remove barriers preventing banks from engaging in the securities and insurance businesses, change tax laws affecting the taxation of insurance companies and the tax treatment of insurance products or competing non-insurance products that may impact the relative desirability of various personal investment products and otherwise expand overall regulation of insurance products and the insurance industry. The ultimate changes and eventual effects of these initiatives on the Company's business, if any, are uncertain.

LEGAL PROCEEDINGS

Legal proceedings involving Allstate agencies and AIC may impact the Company, even when the Company is not directly involved, because the Company sells its products through a variety of distribution channels including Allstate agencies. Consequently, information about the more significant of these proceedings is provided below.

AIC is defending various lawsuits involving worker classification issues. These lawsuits include a number of putative class actions and one certified class action challenging the overtime exemption claimed by AIC under the Fair Labor Standards Act or state wage and hour laws. These class actions mirror similar lawsuits filed recently against other carriers in the industry and other employers. A putative nationwide class action filed by former employee agents also includes a worker classification issue; these agents are challenging certain amendments to the Agents Pension Plan and are seeking to have exclusive agent independent contractors treated as employees for benefit purposes. AIC has been vigorously defending these and various other worker classification lawsuits. The outcome of these disputes is currently uncertain.

AIC is also defending certain matters relating to its agency program reorganization announced in 1999. These matters include an investigation by the U.S. Department of Labor and a lawsuit filed in December 2001 by the U.S. Equal Employment Opportunity Commission ("EEOC") with respect to allegations of retaliation under the Age Discrimination in Employment Act, the Americans with Disabilities Act and Title VII of the Civil Rights Act of 1964. A putative nationwide class action has also been filed by former employee agents alleging various violations of ERISA, breach of contract and age discrimination. AIC has been vigorously defending these lawsuits and other matters related to its agency program reorganization. In addition, AIC is defending certain matters relating to its life agency program reorganization announced in 2000. These matters include an investigation by the EEOC with respect to allegations of age discrimination and retaliation. AIC is cooperating fully with the agency investigation and will continue to vigorously defend these and other claims related to the life agency program reorganization. The outcome of these disputes is currently uncertain.

The Company is defending various lawsuits and regulatory proceedings that allege that it engaged in business or sales practices inconsistent with state or federal law. The Company has been vigorously defending these matters, but their outcome is currently uncertain.

Various other legal and regulatory actions are currently pending that involve the Company and specific aspects of its conduct of business. Like other members of the insurance industry, the Company is the target of an increasing number of class action lawsuits and other types of litigation, some of which involve claims for substantial or indeterminate amounts. This litigation is based on a variety of issues including insurance and claim settlement practices. The outcome of these disputes is currently unpredictable. However, at this time, based on their present status, it is the opinion of management that the ultimate liability, if any, in one or more of these other actions in excess of

amounts currently reserved is not expected to have a material effect on the results of operations, liquidity or financial position of the Company.

12. INCOME TAXES

ALIC and its eligible domestic subsidiaries (the "Allstate Life Group") join with the Corporation (the "Allstate Group") in the filing of a consolidated federal income tax return and are party to a federal income tax allocation agreement (the "Allstate Tax Sharing Agreement"). Under the Allstate Tax Sharing Agreement, the Allstate Life Group pays to or receives from the Corporation the amount, if any, by which the Allstate Group's federal income tax liability is affected by virtue of inclusion of the Allstate Life Group in the consolidated federal income tax return. Effectively, this results in the Allstate Life Group's annual income tax provision being computed, with adjustments, as if the Allstate Life Group filed a separate return. Certain domestic subsidiaries are not eligible to join in the consolidated federal income tax return and file separate tax returns.

The Internal Revenue Service ("IRS") has completed its review of the Corporation's federal income tax returns through the 1996 tax year. Any adjustments that may result from IRS examinations of tax returns are not expected to have a material impact on the financial position, liquidity or results of operations of the Company.

The components of the deferred income tax assets and liabilities at December 31 are as follows:

(IN MILLIONS)	2003	2002
DEFERRED ASSETS		
Life and annuity reserves	$ 666	$ 601
Other assets	150	185
Total deferred assets	816	786
DEFERRED LIABILITIES		
Deferred policy acquisition costs	(1,003)	(938)
Unrealized net capital gains	(567)	(566)

Other liabilities	(25)	10
Total deferred liabilities	(1,595)	(1,494)
Net deferred liability	$ (779)	$ (708)

Although realization is not assured, management believes it is more likely than not that the deferred tax assets will be realized based on the assumption that certain levels of income will be achieved. There were no valuation allowances on deferred tax assets at December 31, 2003 and 2002.

The components of income tax expense for the years ended December 31 are as follows:

(IN MILLIONS)	2003	2002	2001
Current	$ 86	$ 142	$ 156
Deferred	76	(85)	23
Total income tax expense	$ 162	$ 57	$ 179

The Company paid income taxes of $161 million, $116 million and $116 million in 2003, 2002 and 2001, respectively. The Company had a current income tax asset of $24 million and a current income tax liability of $50 million at December 31, 2003 and 2002, respectively.

A reconciliation of the statutory federal income tax rate to the effective income tax rate on income from operations for the years ended December 31 is as follows:

	2003	2002	2001
Statutory federal income tax rate	35.0%	35.0%	35.0%
Adjustment to prior year tax liabilities	2.4	(12.9)	-
Dividends			

received deduction (2.6) (4.0) (2.4)
Other 1.1 0.9 (0.2)

Effective income tax rate 35.9% 19.0% 32.4%
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Adjustments for prior year tax liabilities were an increase in expense of $11 million and a decrease in expense of $39 million in 2003 and 2002, respectively, which primarily resulted from Internal Revenue Service developments and reconciliation of deferred taxes.

Prior to January 1, 1984, the Company was entitled to exclude certain amounts from taxable income and accumulate such amounts in a "policyholder surplus" account. The balance in this account at December 31, 2003, approximately $94 million, will result in federal income taxes payable of $33 million if distributed by the Company. No provision for taxes has been made as the Company has no plan to distribute amounts from this account. No further additions to the account have been permitted since 1983.

13. CAPITAL STRUCTURE

DEBT OUTSTANDING

The Company was determined to be the primary beneficiary of a previously unconsolidated structured investment security considered a VIE under FIN 46. As a result, the VIE was consolidated in 2003 resulting in an increase in debt of $45 million in the consolidated financial statements. The underlying debt of the structured investment security VIE is zero coupon and matures in 2007.

PREFERRED STOCK

The Company has one series of non-voting, redeemable preferred stock. Redeemable preferred stock--Series A was issued to The Northbrook Corporation, a subsidiary of AIC, which is redeemable at the option of the Company at any time five years after the issuance date at a price of $100 per share plus cumulative accrued and unpaid dividends. If the Company is liquidated or dissolved, holders of the preferred stock will be entitled to payments of $100 per share plus cumulative accrued and unpaid dividends.

For redeemable preferred stock--Series A, the Company's Board of Directors declares and pays a cash dividend from time to time, but not more frequently than quarterly. The dividend is based on the three month LIBOR rate. Dividends of $2 million, $3 million and $5 million were paid during 2003, 2002, and 2001, respectively. There were no accrued and unpaid dividends for Series A preferred stock at December 31, 2003.

Redeemable preferred stock--Series A subscriptions receivable resulted from the Company's issuance of additional shares to The Northbrook Corporation in return for $14 million in cash, which was received on January 14, 2002.

On December 28, 2001 AIC made a capital contribution to ALIC of all of the issued and outstanding ALIC Redeemable preferred stock--Series B, resulting in an increase in additional capital paid-in of $117 million.

For redeemable preferred stock--Series B, cash dividends of 6.9% per annum were payable annually in arrears on the last business day of each year to the shareholder of record on the immediately preceding business day. Dividends of $8 million were paid during 2001.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. STATUTORY FINANCIAL INFORMATION

The following table reconciles consolidated net income for the years ended December 31, and consolidated shareholder's equity at December 31, as reported herein in conformity with GAAP with total statutory net income and capital and surplus of ALIC and its insurance subsidiaries, determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities:

(IN MILLIONS)	NET INCOME 2003	NET INCOME 2002	NET INCOME 2001	SHAREHOLDER'S EQUITY 2003	SHAREHOLDER'S EQUITY 2002
Balance per GAAP	$ 278	$ 245	$ 368	$ 6,429	$ 6,362
Undistributed net income of certain subsidiaries	(3)	18	7	-	-
Unrealized gain/loss on fixed income securities	-	-	-	(3,253)	(3,082)
Deferred policy acquisition costs	(250)	(248)	(291)	(3,202)	(2,915)
Deferred income taxes	75	7	18	980	1,325
Employee benefits	25	6	8	20	(18)
Reserves and non-admitted assets	397	46	112	1,932	1,255
Separate Accounts	-	-	-	401	396
Other	87	42	5	253	(78)
Balance per statutory accounting practices	$ 609	$ 116	$ 227	$ 3,560	$ 3,245

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ALIC and each of its insurance subsidiaries prepare their statutory-basis financial statements in conformity with accounting practices prescribed or permitted by the insurance department of the applicable state of domicile. Prescribed statutory accounting practices include a variety of publications of the NAIC, as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed.

All states require domiciled insurance companies to prepare statutory-basis financial statements in conformity with the NAIC Accounting Practices and Procedures Manual ("Codification"), subject to any deviations prescribed or permitted by the applicable insurance commissioner and/or director.

DIVIDENDS

The ability of ALIC to pay dividends is dependent on business conditions, income, cash requirements of ALIC, receipt of dividends from its subsidiaries and other relevant factors. The payment of shareholder dividends by ALIC to AIC without the prior approval of the state insurance regulator is limited to formula amounts based on net income and capital and surplus, determined in conformity with statutory accounting practices, as well as the timing and amount of dividends paid in the preceding twelve months.

In the twelve-month period beginning January 1, 2003, ALIC paid dividends of $201 million, which was less than the maximum amount allowed under Illinois insurance law without the prior approval of the Illinois Department of Insurance ("IL DOI") based on 2002 formula amounts. Based on 2003 ALIC statutory net income, the maximum amount of dividends ALIC will be able to pay without prior IL DOI approval at a given point in time during 2004 is $551 million, less dividends paid during the preceding twelve months measured at that point in time.

RISK-BASED CAPITAL

The NAIC has a standard for assessing the solvency of insurance companies, which is referred to as risk-based capital ("RBC"). The requirement consists of a formula for determining each insurer's RBC and a model law specifying regulatory actions if an insurer's RBC falls below specified levels. At December 31, 2003, RBC for ALIC and each of its insurance subsidiaries was above levels that would require regulatory action.

15. BENEFIT PLANS

PENSION AND OTHER POSTRETIREMENT PLANS

Defined benefit pension plans, sponsored by AIC, cover most full-time employees, certain part-time employees and employee-agents. Benefits under the pension plans are based upon the employee's length of service and eligible annual compensation. A cash balance formula was added to the Allstate Retirement Plan effective January 1, 2003. All eligible employees hired before August 1, 2002 were provided with a one-time opportunity to choose between the cash

balance formula and the final average pay formula. The cash balance formula applies to all eligible employees hired after August 1, 2002. AIC's funding policy for the pension plans is to make annual contributions in accordance with regulations under the Internal Revenue Code and in accordance with generally accepted actuarial principles. The allocated cost to the Company included in net income for the pension plans in 2003 and 2002 was $22 million and $11 million, respectively, while the allocated benefit to the Company included in net income in 2001 was $1 million.

AIC also provides certain health care and life insurance subsidies for employees hired before January 1, 2003 when they retire. Qualified employees may become eligible for these benefits if they retire in accordance with AIC's established retirement policy and are continuously insured under AIC's group plans or other approved plans in accordance with the plan's participation requirements. AIC shares the cost of the retiree medical benefits with retirees based on years of service, with AIC's share being subject to a 5% limit on annual medical cost inflation after retirement. AIC has the right to modify or terminate these plans. The allocated cost to the Company included in net income was $6 million, $6 million and $5 million for postretirement benefits other than pension plans in 2003, 2002 and 2001, respectively.

PROFIT SHARING PLANS

Employees of AIC are eligible to become members of The Savings and Profit Sharing Fund of Allstate Employees ("Allstate Plan"). The Corporation's contributions are based on the Corporation's matching obligation and performance. The Company's allocation of profit sharing expense from the Corporation was $13 million, $15 million, and $5 million in 2003, 2002 and 2001, respectively.

16. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income on a pre-tax and after-tax basis for the years ended December 31 are as follows:

(IN MILLIONS)	2003			2002			2001		
	PRETAX	TAX	AFTER-TAX	PRETAX	TAX	AFTER-TAX	PRETAX	TAX	AFTER-TAX
UNREALIZED CAPITAL GAINS AND LOSSES									
Unrealized holding gains (losses) arising during the period	$ (46)	$ 16	$ (30)	$ 167	$ (58)	$ 109	$ (109)	$ 38	$ (71)
Less: reclassification adjustment	(43)	15	(28)	(479)	168	(311)	(232)	81	(151)
Unrealized net capital gains (losses)	(3)	1	(2)	646	(226)	420	123	(43)	80
Cumulative effect of change in accounting for derivative and embedded derivative financial instruments	-	-	-	-	-	-	(1)	-	(1)
Net gains (losses) on derivatives arising during the period	-	-	-	(6)	2	(4)	(1)	-	(1)
Less:									

reclassification adjustment for derivative instruments (5) 2 (3) - - - 4 (2) 2 ------ ------ --------- ------ ------ --------- ------ ------ --------- Net gains (losses) on derivative instruments 5 (2) 3 (6) 2 (4) (6) 2 (4) ------ ------ --------- ------ ------ --------- ------ ------ --------- Unrealized net capital gains (losses) and net gains (losses) on derivative instruments 2 (1) 1 640 (224) 416 117 (41) 76 UNREALIZED FOREIGN CURRENCY TRANSLATION ADJUSTMENTS - - - (1) - (1) 3 (1) 2 ------ ------ --------- ------ ------ --------- ------ ------ --------- Other comprehensive income $ 2 $ (1) $ 1 $ 639 $ (224) $ 415 $ 120 $ (42) $ 78 ====== ====== ========= ====== ====== ========= ====== ====== =========

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. QUARTERLY RESULTS (UNAUDITED)

FIRST QUARTER SECOND QUARTER THIRD QUARTER FOURTH QUARTER ------------ ------------ ------------ ------------ (IN MILLIONS) 2003 2002 2003 2002

2003 2002
2003 2002

------- --
----- ----
--- ------
- --------
-------- -

Revenues $
1,244 $
1,069 $
1,143 $
1,193 $
1,203 $
1,002 $
1,239 $
1,168
Income
before
cumulative
effect of
change in
accounting
principle,
after-tax
39 87 85
107 119 4
48 47 Net
income 39
87 85 107
119 4 35
47

Independent Auditors' Report

TO THE BOARD OF DIRECTORS AND SHAREHOLDER
OF ALLSTATE LIFE INSURANCE COMPANY:

We have audited the accompanying Consolidated Statements of Financial Position of Allstate Life Insurance Company and subsidiaries (the "Company", an affiliate of The Allstate Corporation) as of December 31, 2003 and 2002, and the related Consolidated Statements of Operations and Comprehensive Income, Shareholder's Equity and Cash Flows for each of the three years in the period ended December 31, 2003. Our audits also included Schedule I--Summary of Investments other than Investments in Related Parties, Schedule III--Supplementary Insurance Information, Schedule IV--Reinsurance, and Schedule V--Valuation and Qualifying Accounts. These consolidated financial statements and consolidated financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and consolidated financial statement schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, Schedule I--Summary of Investments other than Investments in Related Parties, Schedule III--Supplementary Insurance Information, Schedule IV--Reinsurance, and Schedule V--Valuation and Qualifying Accounts, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, in 2003, the Company changed its method of accounting for embedded derivatives in modified coinsurance agreements and variable interest entities.

/s/ Deloitte & Touche LLP

Chicago, Illinois
February 4, 2004

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

With the participation of our principal executive officer and principal financial officer, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon this evaluation, the principal executive officer and the principal financial officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic reports filed with the Securities and Exchange Commission. However, the design of any system of controls and procedures is based in part upon assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and are effective at the "reasonable assurance" level.

During the fiscal quarter ended December 31, 2003, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Omitted.

ITEM 11. EXECUTIVE COMPENSATION

Omitted.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Omitted.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Omitted.

ITEM 14. PRINCIPLE ACCOUNTANT FEES AND SERVICES

(1), (2), (3), (4) AND (5)(II) DISCLOSURE OF FEES -

The following fees have been, or will be, billed by Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates, for professional services rendered to Allstate Life Insurance Company for the fiscal years ending December 31, 2003 and December 31, 2002.

PERCENTAGE
OF 2003
FEES PRE-
APPROVED
BY THE
AUDIT
COMMITTEE
OF THE
2003
ALLSTATE
CORPORATION
2002 ----

Audit Fees (a)	$ 3,851,645	100%	$ 3,355,328
Audit Related Fees (b)	247,680	100%	663,861
Tax Fees (c)	29,000	100%	27,200
All Other Fees (d)	148,506	100%	-
TOTAL FEES	$ 4,276,831	100%	$ 4,046,389

(a) Fees for audits of annual financial statements including financial statements for the separate accounts, reviews of quarterly financial statements, statutory audits, attest services, comfort letters, consents and review of documents filed with the Commission.

(b) Audit related fees relate to professional services such as accounting consultations relating to new accounting standards, due diligence assistance and audits of non-consolidated entities (various trusts) and are set forth below.

	2003	2002
Due diligence	$ -	$ 479,861
Audits of non-consolidated entities	179,000	184,000
Compliance reviews	68,680	-
	$ 247,680	$ 663,861

(c) Includes fees for tax compliance, consultation and planning

(d) All other fees include professional fees for consulting services related to non-financial information technology.

(5)(i) AUDIT COMMITTEE'S PRE-APPROVAL POLICIES AND PROCEDURES -

The Audit Committee of The Allstate Corporation has established preapproval policies and procedures for itself and its consolidated subsidiaries, including the registrant. Those policies and procedures are incorporated into this Item 14.(5)(i) by reference to Appendix D to The Allstate Corporation's Notice of Annual Meeting and Proxy Statement dated March 26, 2004. The Board of Directors of the registrant has recently formed an Audit Committee, which will be responsible for these matters in the future as they relate to the registrant and its subsidiaries.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a)(1) The following Consolidated Financial Statements, Notes Thereto and Independent Auditors' Report of Allstate Life Insurance Company are included in Item 8.

Consolidated Statements of Operations and Comprehensive Income
Consolidated Statements of Financial Position
Consolidated Statements of Shareholder's Equity
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements
Independent Auditors' Report

(a)(2) The following additional financial statement schedules are furnished herewith pursuant to the requirements of Form 10-K.

Schedules required to be filed under the provisions of Regulation S-X Article 7:

All other schedules are omitted because they are not applicable, or not required, or because the required information is included in the Consolidated Financial Statements or notes thereto.

(a)(3) The following is a list of the exhibits filed as part of this Form 10-K. The SEC File Number for the exhibits incorporated by reference is 0-31248 except as otherwise noted.

EXHIBIT NO. DOCUMENT DESCRIPTION
----------- --

3(i) Articles of Amendment to the Articles of Incorporation of Allstate Life Insurance Company dated December 29, 1999. Incorporated herein by reference to Exhibit 3.1 to Allstate Life Insurance Company's Form 10 filed on April 24, 2002.

3(ii) By-Laws of Allstate Life Insurance Company, Amended and Restated June 28, 2000. Incorporated herein by reference to Exhibit 3.2 to Allstate Life

Insurance Company's Form 10 filed on April 24, 2002. 4 See Exhibits 3 (i) and 3 (ii). 10.1 Service and Expense Agreement among Allstate Insurance Company, The Allstate Corporation and Certain Insurance Subsidiaries dated January 1, 1999. Incorporated herein by reference to Exhibit 10.22 to Allstate Life Insurance Company's Form 10 filed on April 24, 2002. 10.2 Addendum to Service and Expense Agreement between Allstate Insurance Company and Allstate Assurance Company (fka Provident National Assurance Company) effective February 1, 2001. Incorporated herein by reference to Exhibit 10.23 to Allstate Life Insurance Company's Form 10 filed on April 24, 2002.

10.3 Service Agreement effective as of July 1, 1989 between Allstate Insurance Company and Allstate Life Insurance Company of New York. Incorporated herein by reference to Exhibit 10.24 to Allstate Life Insurance Company's Form 10 filed on April 24, 2002.

10.4 Administrative Services Agreement between Allstate Insurance

Company and Intramerica Life Insurance Company effective July 1, 1999. Incorporated herein by reference to Exhibit 10.25 to Allstate Life Insurance Company's Form 10 filed on April 24, 2002.

10.5	Service Agreement between Lincoln Benefit Life Company and Allstate Financial Services, LLC (f/k/a Laughlin Group Advisors, Inc. and LSA Securities, Inc.) effective April 1, 1998. Incorporated herein by reference to Exhibit 10.3 to Lincoln Benefit Life Company's Quarterly Report on Form 10-Q for quarter ended June 30, 2002 (SEC File No. 333-59765)
10.6	Selling Agreement between Allstate Life Insurance Company, ALFS, Inc. (f/k/a Allstate Life Financial Services, Inc.) and Allstate Financial Services, LLC (f/k/a LSA Securities, Inc.) effective July 26, 1999.
10.7	Selling Agreement between Allstate Life Insurance Company of New York, ALFS, Inc. and Allstate Financial Services, LLC effective May 17, 2001.
10.8	Selling Agreement between Lincoln Benefit Life Company, ALFS, Inc. (f/k/a Allstate Life Financial Services, Inc.) and Allstate Financial Services, LLC (f/k/a LSA Securities, Inc.) effective August 2, 1999.
10.9	Marketing Coordination and Administrative Services Agreement among Allstate Insurance Company, Allstate Life Insurance Company and Allstate Financial Services, LLC effective January 1, 2003.
10.10	Cost Sharing Agreement between Allstate Life Insurance Company and Allstate Reinsurance Ltd. effective October 12, 2000. Incorporated herein by reference to Exhibit 10.27 to Allstate Life Insurance Company's Form 10 filed on April 24, 2002.
10.11	Investment Management Agreement and Amendment to Certain Service and Expense Agreements Among Allstate Investments, LLC and Allstate Insurance Company and The Allstate Corporation and Certain Affiliates effective as of January 1, 2002. Incorporated herein by reference to Exhibit 10.28 to Allstate Life Insurance Company's Form 10 filed on April 24, 2002.
10.12	Investment Advisory Agreement by and between Allstate Insurance Company and Intramerica Life Insurance Company effective July 1, 1999. Incorporated herein by reference to Exhibit 10.29 to Allstate Life Insurance Company's Form 10 filed on April 24, 2002.
10.13	Assignment and Assumption Agreement dated as of January 1, 2002 among Allstate Insurance Company, Allstate Investments, LLC and Intramerica Life Insurance Company. Incorporated herein by reference to Exhibit 10.30 to Allstate Life Insurance Company's Form 10 filed on April 24, 2002.
10.14	Investment Advisory Agreement and Amendment to Service Agreement as of January 1, 2002 between Allstate Insurance Company, Allstate Investments, LLC and Allstate Life Insurance Company of New York. Incorporated herein by reference to Exhibit 10.31 to Allstate Life Insurance Company's Form 10 filed on April 24, 2002.
10.15	Cash Management Services Master Agreement between Allstate Insurance Company and Allstate Bank (fka Allstate Federal Savings Bank) dated March 16, 1999. Incorporated herein by reference to Exhibit 10.32 to Allstate Life Insurance Company's Form 10 filed on April 24, 2002.
10.16	Amendment No. 1 to Cash Management Services Master Agreement effective January 5, 2001. Incorporated herein by reference to Exhibit 10.33 to Allstate Life Insurance Company's Form 10 filed on April 24, 2002.
10.17	Agent Access Agreement among Allstate Insurance Company, Allstate Life Insurance Company and Allstate Bank effective January 1, 2002.

10.18	Form of Allstate Insurance Company Agreement of General Indemnity executed by Allstate Life Insurance Company and Northbrook Life Insurance Company dated November 27, 1987 and executed by Allstate Settlement Corporation dated May 14, 1991. Incorporated herein by

reference to Exhibit 10.34 to Allstate Life Insurance Company's Form 10 filed on April 24, 2002.

10.19	Stipulation to Allstate Insurance Company Agreement of General Indemnity executed by Allstate Settlement Corporation. Incorporated herein by reference to Exhibit 10.35 to Allstate Life Insurance Company's Form 10 filed on April 24, 2002.
10.20	Tax Sharing Agreement dated as of November 12, 1996 among The Allstate Corporation and certain affiliates. Incorporated herein by reference to Exhibit 10.36 to Allstate Life Insurance Company's Form 10 filed on April 24, 2002.
10.21	Reinsurance Agreement between Allstate Insurance Company and Allstate Life Insurance Company effective as of June 1, 1992. Incorporated herein by reference to Exhibit 10.37 to Allstate Life Insurance Company's Form 10 filed on April 24, 2002.
10.22	Amendment to Reinsurance Agreement between Allstate Insurance Company and Allstate Life Insurance Company, effective January 1, 1993. Incorporated herein by reference to Exhibit 10.38 to Allstate Life Insurance Company's Form 10 filed on April 24, 2002.
10.23	Reinsurance Agreement between Columbia Universal Life Insurance Company and Allstate Life Insurance Company, approved August 2000. Incorporated herein by reference to Exhibit 10.39 to Allstate Life Insurance Company's Form 10 filed on April 24, 2002.
10.24	Reinsurance Agreement between Columbia Universal Life Insurance Company and Allstate Life Insurance Company, approved July 2000. Incorporated herein by reference to Exhibit 10.40 to Allstate Life Insurance Company's Form 10 filed on April 24, 2002.
10.25	Retrocession Agreement between Allstate Life Insurance Company and Allstate Reinsurance, Ltd. Incorporated herein by reference to Exhibit 10.41 to Allstate Life Insurance Company's Form 10 filed on April 24, 2002.
10.26	Amendment No. 1 to Retrocession Agreement between Allstate Life Insurance Company and Allstate Reinsurance, Ltd. effective January 1, 1998. Incorporated herein by reference to Exhibit 10.42 to Allstate Life Insurance Company's Form 10 filed on April 24, 2002.
10.27	Amendment No. 2 to Retrocession Agreement between Allstate Life Insurance Company and Allstate Reinsurance, Ltd. Incorporated herein by reference to Exhibit 10.43 to Allstate Life Insurance Company's Form 10 filed on April 24, 2002.
10.28	Amendment No. 3 to Retrocession Agreement between Allstate Life Insurance Company and Allstate Reinsurance, Ltd. Incorporated herein by reference to Exhibit 10.44 to Allstate Life Insurance Company's Form 10 filed on April 24, 2002.
10.29	Catastrophe Reinsurance Agreement between Allstate Life Insurance Company and American Heritage Life Insurance Company effective July 1, 2003.

23	Independent Auditors' Consent
31.1	Rule 13a-14(a) Certification of Principal Executive Officer
31.2	Rule 13a-14(a) Certification of Principal Financial Officer
32	Section 1350 Certification

(b)(1) No current reports on Form 8-K were filed during the fourth quarter of 2003.

(c)(1) The exhibits are listed in Item 15 (a) (3) above.

(d)(1) The financial statement schedules are listed in Item 15 (a) (2) above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALLSTATE LIFE INSURANCE COMPANY
(Registrant)

March 24, 2004 /s/ Samuel H. Pilch

By: Samuel H. Pilch
(chief accounting officer and duly
authorized officer of the registrant)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE
TITLE DATE
- --------

/s/Casey
J. Sylla
Chairman
of the
Board,
President
and a
Director
March 24,
2004 - ---

-
(Principal
Executive
Officer)
Casey J.
Sylla
/s/Steven
E. Shebik
Senior
Vice
President,
Chief
Financial
Officer
and March
24, 2004 -

---- a
Director
(Principal
Financial
Officer)
Steven E.
Shebik
/s/David
A. Bird
Director
March 24,
2004 - ---

- David A.
Bird /s/
Danny L.
Hale
Director
March 24,
2004 - ---

- Danny L.
Hale
/s/Edward
M. Liddy
Director
March 24,
2004 - ---

- Edward
M. Liddy
/s/John C.
Lounds
Director
March 24,
2004 - ---

- John C.
Lounds
/s/J.
Kevin
McCarthy
Director
March 24,
2004 - ---

- J. Kevin
McCarthy
/s/Robert
W. Pike
Director
March 24,
2004 - ---

- Robert
W. Pike
/s/ Eric
A.
Simonson
Director
March 24,
2004 - ---

- Eric A.
Simonson
/s/Kevin
R. Slawin
Director
March 24,
2004 - ---

- Kevin R.
Slawin
/s/Michael
J. Velotta
Director
March 24,
2004 - ---

- Michael
J. Velotta
/s/Thomas
J. Wilson,
II
Director
March 24,

2004 - ---

- Thomas
J. Wilson,
II

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES
SCHEDULE I--SUMMARY OF INVESTMENTS OTHER THAN INVESTMENTS IN RELATED
PARTIES DECEMBER 31, 2003

CARRYING (IN
MILLIONS)
COST FAIR
VALUE VALUE -
--------- ---
------- -----
----- TYPE OF
INVESTMENT
Fixed Income
Securities,
Available for
Sale: Bonds:
United States
government,
government
agencies and
authorities $
2,519 $ 3,205
$ 3,205
States,
municipalities
and political
subdivisions
1,675 1,717
1,717 Foreign
governments
1,302 1,589
1,589 Public
utilities
4,536 5,062
5,062
Convertibles
and bonds
with warrants
attached 399
406 406 All
other
corporate
bonds 23,964
25,367 25,367
Mortgage-
backed
securities
10,540 10,760
10,760 Asset-
backed
securities
3,423 3,428
3,428
Redeemable
preferred
stocks 43 44
44 ----------
---------- --

Total fixed
income
securities $
48,401 $
51,578 $
51,578 ------

========== --

Equity
Securities:

Common Stocks: Public utilities $ - $ - $ - Banks, trusts and insurance companies 9 12 12 Industrial, miscellaneous and all other 121 122 122 Nonredeemable preferred stocks 30 30 30 ---------- ---------- ---------- Total equity securities $ 160 $ 164 $ 164 ---------- ========== ---------- Mortgage loans on real estate $ 6,354 $ 6,354 Real estate 35 35 Policy loans 686 686 Other long-term investments 118 407 Short-term investments 765 765 ---------- ---------- Total investments $ 56,519 $ 59,989 ========== ==========

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES
SCHEDULE III--SUPPLEMENTARY INSURANCE INFORMATION

AT DECEMBER 31 FOR THE YEAR ENDED DECEMBER 31 -- --- --- AMORTIZATION FUTURE POLICY CONTRACT OF DEFERRED BENEFITS, PREMIUMS BENEFITS DEFERRED POLICY LOSSES, AND NET AND POLICY

OPERATING
ACQUISITION
CLAIMS,
UNEARNED
CONTRACT
INVESTMENT
CREDITED
ACQUISITION
COSTS AND
(IN
MILLIONS)
COSTS
EXPENSES
PREMIUMS
CHARGES
INCOME
INTEREST
COSTS
EXPENSES -

-- --------
--- -------
------ ----
---- ------
-- --------
-- --------

- ---------
2003 $
3,202 $
55,394 $ 32
$ 1,831 $
3,082 $
3,359 $ 479
$ 493 2002
$ 2,915 $
48,591 $ 24
$ 1,876 $
2,978 $
3,234 $ 418
$ 475 2001
$ 2,997 $
40,925 $ 17
$ 1,867 $
2,833 $
3,155 $ 365
$ 416

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES
SCHEDULE IV--REINSURANCE

(IN
MILLIONS)
PERCENT
CEDED
ASSUMED OF
AMOUNT
GROSS TO
OTHER FROM
OTHER NET
ASSUMED
AMOUNT
COMPANIES
COMPANIES
AMOUNT TO
NET ------
---- -----
----- ----
------ ---
------- --

YEAR ENDED
DECEMBER
31, 2003
Life
insurance
in force $

382,509 $
176,907 $
4,945 $
210,547
2.3%
Premiums
and
contract
charges:
Life and
annuities
$ 1,928 $
318 $ 47 $
1,657 2.8%
Accident
and health
212 100 62
174 35.6%

Total
premiums
and
contract
charges $
2,140 $
418 $ 109
$ 1,831
6.0%
==========
==========
==========
==========
YEAR ENDED
DECEMBER
31, 2002
Life
insurance
in force $
370,761 $
156,505 $
4,260 $
218,516
1.9%
Premiums
and
contract
charges:
Life and
annuities
$ 1,921 $
310 $ 47 $
1,658 2.8%
Accident
and health
229 83 72
218 33.0%

Total
premiums
and
contract
charges $
2,150 $
393 $ 119
$ 1,876
6.3%
==========
==========
==========
==========
YEAR ENDED
DECEMBER
31, 2001
Life
insurance

in force $
356,781 $
138,925 $
3,691 $
221,547
1.7%
Premiums
and
contract
charges:
Life and
annuities
$ 1,929 $
282 $ 57 $
1,704 3.3%
Accident
and health
156 41 48
163 29.4%

Total
premiums
and
contract
charges $
2,085 $
323 $ 105
$ 1,867
5.6%
==========
==========
==========
==========

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES
SCHEDULE V--VALUATION AND QUALIFYING ACCOUNTS

(IN
MILLIONS)
BALANCE AT
CHARGED TO
BALANCE AT
BEGINNING
COSTS AND
END OF OF
PERIOD
EXPENSES
DEDUCTIONS
PERIOD ---
-------- -

YEAR ENDED
DECEMBER
31, 2003
Allowance
for
estimated
losses on
mortgage
loans and
real
estate $ -
$ 1 $ - $
1
Allowance
for
deferred
tax assets
$ - $ - $
- $ - YEAR
ENDED
DECEMBER

31, 2002				
Allowance for estimated losses on mortgage loans and real estate	$ 5	$ -	$ 5	$ -
Allowance for deferred tax assets	$ -	$ -	$ -	$ -
YEAR ENDED DECEMBER 31, 2001				
Allowance for estimated losses on mortgage loans and real estate	$ 5	$ -	$ -	$ 5
Allowance for deferred tax assets	$ 2	$ -	$ 2	$ -

Exhibit 10.6

SELLING AGREEMENT

Agreement, made this 26th day of July, 1999, by and among Allstate Life Insurance Company ("Allstate Life"), an Illinois life insurance company; Allstate Life Financial' Services, Inc. ("ALFS"), a Delaware corporation; and LSA Securities, Inc. ("Broker-Dealer" or BD"), an Oregon corporation.

ALLSTATE LIFE INSURANCE COMPANY	ALLSTATE LIFE FINANCIAL SERVICES, INC.
By: /s/ John R. Hunter	By: /s/ Gregory C. Sernett
Title: Vice President	Title: Assistant Secretary
BROKER DEALER UTILIZING	ASSOCIATED INSURANCE AGENCY (IF BD IS SUCH AGENCY PURSUANT TO SECTION 12)
LSA Securities, Inc	
(Name)	(Name)
206 South 13th St.	
(Street Address)	Street Address)
Lincoln, NE 68508-1993	
(City, State, Zip)	(City, State, Zip)
By: /s/ Carol S. Watson	By:
Carol S. Watson	
Title: President	Title:
	For States:

WHEREAS, Allstate Life issues certain variable contracts/policies described further in this Agreement and attached Schedules, which are deemed securities ("Contracts") under the Securities Act of 1933 ("1933 Act"); and

WHEREAS, ALFS is registered as a broker/dealer with the Securities Exchange Commission ("SEC") under the Securities Exchange Act of 1934, as amended ("1934 Act"), and with the National Association of Securities Dealers, Inc. ("NASD");

WHEREAS, Allstate Life has appointed ALFS as Underwriter of the Contracts; and

WHEREAS, BD is duly licensed as a Broker/dealer with the SEC and NASD, and is engaged in the sale of securities and other investment products; and

WHEREAS, each Associated Insurance Agency is an insurance agent in the states noted above; and

WHEREAS, Allstate Life and ALFS propose to have Associated Insurance Agency and BD's representatives ("Representatives") who are also duly licensed insurance agents solicit sales of the Contracts; and

WHEREAS, ALFS delegates to BD, to the extent legally permitted, training and certain administrative responsibilities and duties in connection with sales of the Contracts.

NOW THEREFORE, in consideration of the premises and mutual promises contained herein including the attached schedule and Exhibits, the parties hereto agree as follows:

1. APPOINTMENT AND AUTHORIZATION

ALFS hereby authorizes BD to supervise solicitations of the Contracts, and to facilitate solicitations of sales of the Contracts that are described more specifically in the Commission Schedule(s) attached hereto. Allstate Life hereby appoints Associated Insurance Agency to solicit sales of the Contracts. BD and Associated Insurance Agency accept such appointment and authorization, and each agrees to use its best efforts to find purchasers of the Contracts acceptable to Allstate Life.

2. REPRESENTATIONS

a. Allstate Life, ALFS, BD and Associated Insurance Agency each represents to one another that it and the officers signing above have full power and authority to enter into this Agreement, and that this Agreement has been duly and validly executed by it and constitutes a legal, valid and binding agreement.

b. ALFS represents to BD that ALFS is registered as a broker/dealer with the SEC under 1934 Act and under the state securities laws of each jurisdiction in which such registration is required for underwriting the Contracts, and that it is a member of the NASD.

c. BD represents to ALFS that BD is, and at all times when performing its functions and fulfilling its obligations under this Agreement, registered with the SEC as a broker/dealer under the 1934 Act and under the state securities laws of each jurisdiction in which such registration is required for the sale of the Contracts, and is a member of the NASD. BD will notify ALFS in writing if such registration is terminated or suspended, and shall take all reasonable actions to reinstate such registrations.

d. Allstate Life represents to BD and Associated Insurance Agency that the Contracts, including related separate accounts supporting such Contracts, shall comply in all material respects with the registration and other applicable requirements of the 1933 Act and the Investment Company Act of 1940, as amended, and the rules and regulations thereunder, including the terms of any order of the SEC with respect thereto.

e. Allstate Life represents to BD and Associated Insurance Agency that the Contracts it issues have been filed, or are exempt from filing, and approved by the state insurance departments in such jurisdictions where it is authorized to transact business and such filing and approval are required prior to the issuance of Contracts therein.

f. Allstate Life represents to BD that the Contract prospectuses included in Allstate Life's Registration Statement and in post-effective amendments thereto, and any supplements thereto, as filed or to be filed with the SEC, as of their respective effective dates, contain or will contain, in all material respects, all statements and information which are required to be contained therein by the 1933 Act and conform or will conform in all material respects to the requirements thereof.

g. If BD utilizes an Associated Insurance Agency, BD represents that the Associated Insurance Agency is licensed in all states in which it conducts business. BD and the Associated Insurance Agency represent that they are in compliance with the terms and conditions of no-action letters issued by the staff of the SEC with respect to non-registration as a broker/dealer of an insurance agency associated with a registered broker/dealer. BD and Associated Insurance Agency shall notify ALFS immediately in writing if BD and/or such agency fail to comply with any such terms and conditions and shall take such measures as may be necessary to comply with any such terms and conditions. If Associated Insurance Agency is the same person as BD, this Paragraph g does not apply, and BD shall undertake all the duties, responsibilities and privileges under this agreement.

3. COMPLIANCE WITH NASD CONDUCT RULES AND FEDERAL AND STATE SECURITIES AND STATE INSURANCE LAWS

BD shall abide by all rules and regulations of the NASD governing the sale of the Contracts, including Its Conduct and Membership and Registration Rules, and BD and Associated Insurance Agency shall comply with all applicable state and federal laws and the rules and regulations of authorized regulatory agencies affecting or governing the sale of the Contracts. BD and Associated Insurance Agency shall comply with all applicable administrative procedures of Allstate Life and ALFS.

4. LICENSING AND/OR APPOINTMENT OF REPRESENTATIVES

a. BD and Associated Insurance Agency are hereby specifically authorized to designate those registered representatives of BD, or individuals associated with the Associated Insurance Agency ("Agents"), proposed to be engaged in solicitation of sales of the Contracts for appointment by Allstate Life as individual insurance agents. BD and Associated Insurance Agency shall not propose a registered representative, or Agent, for appointment unless such representative, or Agent, is duly licensed as an insurance agent in the state(s) in which it is proposed that such representative, or Agent, engage in solicitations of sales of the Contracts. BD and Associated Insurance Agency together shall be responsible for registered representatives', and

Agents', compliance with applicable state insurance agent licensing laws.

b. BD and Associated Insurance Agency shall assist Allstate Life and ALFS in the appointment of BD's registered representatives, and Agents, under applicable insurance laws, to sell the Contracts. BD and Associated Insurance Agency shall comply with Allstate Life requirements for, including the General Letter of Recommendation (attached as Exhibit A), in submitting licensing or appointment documentation for proposed

registered representatives and Agents. All such documentation shall be submitted by BD or Associated Insurance Agency to Allstate Life or its designated agent licensing administrator.

c. Allstate Life reserves the right to refuse to appoint any such designated individual or, once appointed, to terminate or refuse to renew the appointment of any such designated individual. Only those registered representatives who are duly licensed as insurance agents and appointed by Allstate Life (herein, "Representatives") shall have authority to solicit sales of the Contracts. Only those Agents who are registered representatives of BD shall have authority to solicit sales of the Registered Contracts. Agents who are not registered representatives of BD are not authorized to sell Contracts. BD and Associated Insurance Agency shall notify ALFS immediately in writing if any Representative appointed by Allstate Life ceases to be a registered representative of BD or if any Representative or Agent ceases to be properly licensed in any state.

5. SUPERVISION OF REPRESENTATIVES AND AGENTS

a. BD shall have full responsibility for training and supervision of all Representatives and all other persons associated with BD who are engaged directly or indirectly in the offer or sale of the Contracts, and all such persons shall be subject to the control of BD with respect to such persons' activities in connection with the sale of the Contracts. Associated Insurance Agency shall have full responsibility for training and supervision of all Agents who are involved directly or indirectly in the offer or sale of the Contracts and for Agent's compliance with applicable state insurance laws.

b. Before Representatives and Associated Insurance Agency engage in the solicitation of applications for the Registered Contracts, BD and Associated Insurance Agency will cause the Representatives (1) to be registered representatives of BD; (2) to be licensed, registered or otherwise qualified under applicable federal and state laws to engage in the sale of the Contracts; (3) to be trained in the sale of the Contracts; and (4) to limit solicitation of applications for the Contracts to jurisdictions where Allstate Life has authorized such solicitations.

c. BD is specifically charged with the responsibility of supervising and reviewing its Representatives' use of sales literature and advertising and all other communications with the public in connection with the Contracts. No sales solicitation, including the delivery of supplemental sales literature or other such materials, shall occur, be delivered to, or used with a prospective purchaser unless accompanied or preceded by the appropriate then current prospectus(es), the then current prospectus(es) for the underlying funds funding the contracts and, where required by state insurance law, the then current statement of additional information relating to the Contracts.

e. BD shall execute any electronic or telephone orders only in accordance with the then current prospectus applicable to the Contracts and agrees, that in consideration for the telephone transfer privileges, Allstate Life will not be liable for any loss incurred as a result of acting upon electronic or telephone instructions containing unauthorized, incorrect or incomplete information received from BD or its representatives.

f. Upon request by Allstate Life, BD and Associated Insurance Agency shall furnish appropriate records or other documentation to evidence BD's and Associated Insurance Agency's diligent supervision.

g. In the event a Representative or Agent performs any unauthorized transaction(s) with respect to a Contract(s), BD shall bear sole responsibility, shall notify Allstate Life and shall act to terminate the sales activities of such Representative or Agent relating to the Contract(s).

h. In the event a Representative or Agent falls to meet the BD's or Associated Insurance Agency's rules and standards, BD or Associated Insurance Agency, as the case may be, shall notify Allstate Life and shall act to terminate the sales activities of such Representative or Agent relating to the Contracts.

6. SALES PROMOTION MATERIAL AND ADVERTISING

a. BD, Associated Insurance Agency, Agents and Representatives, in connection with the offer or sale of the Contracts or solicitation of a payment or other transaction under a Contract, shall not give any information or make any representations or statements, written or oral, concerning the Contracts or a Fund, inconsistent with information or representations contained in the prospectus, statement of additional information and registration statement for the Contracts or such Fund, or in reports or proxy statements thereof, or in promotional, sales or advertising material or other information supplied and approved in writing by ALFS for such use. BD, Associated Insurance Agency, Agents and Representatives may not modify or represent that they may modify any such prospectus, statement of additional information, registration statement, promotional, sales or advertising materials.

b. No item of sales promotion materials or advertising relating to the Contracts, including any illustrations or software programs therefor, shall be used by BD, Associated Insurance Agency, Agents or Representatives unless the specific item has

been provided by Allstate Life and ALFS or has first been approved in writing by Allstate Life and ALFS for use. Allstate Life and ALFS reserve the right to recall any material provided by them at any time for any reason, and BD and Associated Insurance Agency shall promptly comply with any such request for the return of material and shall not use such material thereafter.

7. ETHICAL MARKET CONDUCT COMPLIANCE

In addition to the requirement that you comply with the rules and regulations pertaining to supervision, underwriting practices, acceptance of risks, delivery of policies and all other areas of Allstate Life's business, the BD and BD's representatives are required to:

(a) Comply with Allstate Life's and ALFS's policies and procedures concerning the replacement of life insurance policies and annuity policies. A replacement occurs whenever an existing life insurance policy or annuity is terminated, converted, or otherwise changed in value. For any transaction involving a replacement, Allstate Life and ALFS require you to:

(1) recommend the replacement of an existing policy only when replacement is in the best interest of the customer;
(2) fully disclose all relevant information to the customer which includes, but is not limited to: 1) comparison of old and new premiums, expenses and surrender charges, cash values, and death benefits; 2) any loss of cash value or policy value by surrendering the existing policy; 3) all guaranteed and maximum values of both policies; 4) the fact that a new contestability and suicide period starts under the new policy; and 5) the requirement that the customer must be re-underwritten for the new policy;
(3) provide state-required replacement notices to customers on the same day the application is taken and indicate on the application that the transaction involves the full or partial replacement of an existing policy;
(4) never recommend that a customer cancel an existing policy until a new policy is in force and the customer has determined that the new policy is acceptable.

(b) Adhere to Allstate Life's rules and regulations concerning ethical market conduct, which require that you:

(1) carefully evaluate the insurance needs and financial objectives of your customers, and use sales tools (e.g., policy illustrations and sales brochures) to determine that the insurance or annuity your proposing meets these needs;
(2) maintain a current license and valid appointment in all state in which your promote the sale of Allstate Life products to customers and keep current of changes in insurance laws and regulations;
(3) comply with Allstate Life's policies concerning replacements, and refrain from providing false or misleading information about a competitor or competing product or otherwise making disparaging remarks about a competitor;
(4) submit all advertising materials intended to promote the sale of an Allstate Life product to the home office for approval prior to use;
(5) immediately report to Allstate Life any customer complaints, whether written or oral, and assist Allstate Life in resolving the complaint to the

satisfaction of all parties;
(6) communicate these standards to any producers or office personnel that you directly supervise and request their agreement to be bound by these conditions as well.

8. SOLICITING APPLICATIONS AND PAYMENTS

a. All applications for Contracts shall be made on application forms supplied by Allstate Life. BD, Associated Insurance Agency, Agents and the Representatives shall not recommend the purchase of a Contract to a prospective purchaser unless it has reasonable grounds to believe that such purchase is suitable for the prospective purchaser and is in accordance with applicable regulations of any state insurance department, the SEC and the NASD. A determination of suitability shall include, but is not limited to, information concerning the prospective purchaser's insurance and investment objectives, risk tolerance, tax status, previous investment experience, and other investments and savings.

b. BD and Associated Insurance Agency shall review applications for completeness and correctness as to form, as well as compliance with the suitability standards specified above. BD will promptly, but in no case later than the end of the next business day following receipt by BD or a Representative, forward to Allstate Life all complete and correct applications, according to administrative procedures, together with any payments received with the applications, without deduction for compensation. Allstate Life reserves the right to reject any Contract application and return any payment made in connection with an application that is rejected.

c. Contracts issued on accepted applications will be forwarded to BD for delivery to the Contract owner according to procedures established by Allstate Life, unless Allstate Life has provided otherwise. BD shall cause each such Contract to be delivered to the respective Contract Owner within five days after BD's receipt. BD shall be liable to Allstate Life for any loss incurred by Allstate Life (including consequential damages and regulatory penalties) as a result of any delay by BD or a Representative in delivering such Contract.

d. BD, Associated Insurance Agency, Agents and Representatives shall not encourage a

prospective purchaser to surrender or exchange a Contract in order to purchase another insurance policy or contract except when a change in circumstances makes the Contract an unsuitable investment for the Contract owner.

9. PAYMENTS RECEIVED BY BD

All premium payments are the property of Allstate Life and shall be transmitted to Allstate Life by BD immediately upon receipt by BD or Associated Insurance Agency or any Agent or Representative in accordance with the administrative procedures of Allstate Life, without any deduction or offset for any reason, including by example but not limitation any deduction or offset for compensation claimed by BD. CUSTOMER CHECKS SHALL BE MADE PAYABLE TO THE ORDER OF "ALLSTATE LIFE INSURANCE COMPANY." Allstate Life reserves the right to reject any Payment for any reason.

10. COMMISSIONS PAYABLE

a. Commissions payable in connection with the Contracts shall be paid to BD or Associated Insurance Agency according to the Commission Schedule(s) relating to this Agreement then in effect at the time of receipt by Allstate Life of the payment. If available, a Commission Option(s) may: (1) be elected by BD and Associated Insurance Agency on behalf of all of its Representatives or Agents or (2) may be elected by each Representative or Agent at the time of Application. Any election made and applied to a Contract may not be changed and will be in effect for the life of the Contract. Allstate Life and ALFS reserve the right to revise the Commission Schedule(s) for new business at any time upon at least thirty (30) days prior written notice to BD and Associated Insurance Agency.

b. Compensation to Representatives or Agents for Contracts solicited by the Representatives or Agents and issued by Allstate Life will be governed by agreements between BD or the Associated Insurance Agency and their respective Representatives or Agents and payment thereof will be the BD's or Associated Insurance Agency's sole responsibility.

11. REFUND OF COMMISSIONS

If Allstate Life is required to refund premiums or return contract values and waive surrender charges on any Contract for any reason, then commission will be adjusted with respect to said premiums or Contract as set forth in the Commission Schedule, and any commission previously paid for said premiums must be refunded to Allstate Life or ALFS. ALFS shall have the right to offset any such refundable commission against amounts otherwise payable by ALFS. ALFS agrees to notify BD and Associated Insurance Agency Within thirty (30) days after it receives notice from Allstate Life of any premium refund or a commission charge back.

12. ASSOCIATED INSURANCE AGENCY

In the event BD is not licensed as an insurance agency in any state where it wishes to solicit Contracts, but utilizes and Associated Insurance Agency to satisfy state insurance laws, such Associated Insurance Agency shall sign this agreement and BD shall countersign this Agreement, and BD and it Associated Insurance Agency shall be duly bound thereby.

13. HOLD HARMLESS AND INDEMNIFICATION PROVISIONS

a. No party to this Agreement will be liable for any obligation, act or omission of any other party. BD and Associated Insurance Agency will hold harmless and indemnify Allstate Life and ALFS, and conversely, Allstate Life and ALFS will hold harmless and indemnify BD and Associated Insurance Agency for any loss or expense suffered as a result of the violation or noncompliance by the indemnifying party of or with any applicable law or regulation or any provision of this Agreement. Further, any BD violation or noncompliance by an associated person, as defined in Article 1 of the NASD By-Laws, would be covered under this provision.

b. Without limiting the above paragraph, in situations when "as of" pricing is necessary in connection with the Contracts (and a loss is incurred to compensate the Contract owner for reduced Contract values) the party whose actions resulted in the loss will bear the costs according to pricing procedures established by Allstate Life.

14. ASSIGNMENT

This Agreement may not be assigned by any party except by mutual consent of all other parties.

15. WAIVER

The failure of any party to insist upon the performance of any of the terms of this agreement in any one or more instances will not be construed as a waiver or relinquishment of the future performance of any such term. The obligation of the parties with respect to any such future performance will continue in full force and effect.

16. AMENDMENT

This agreement may not be amended except by written agreement signed by all parties hereto which expressly states that it amends this agreement.

17. INDEPENDENT CONTRACTORS

BD and its Representatives, and Associated Insurance Agency and its Agents, are independent contractors with respect to Allstate Life and ALFS.

18. NOTIFICATION OF CUSTOMER COMPLAINTS OR DISCIPLINARY PROCEEDINGS

a. BD and Associated Insurance Agency agree to notify ALFS promptly of any customer complaints or disciplinary proceedings against BD, Associated Insurance Agency or any Representatives or Agents relating to the Contracts or any threatened or filed arbitration action or civil litigation arising out of solicitation of the Contracts.

b. BD and Associated Insurance Agency shall cooperate with Allstate Life in investigating and responding to any customer complaint, attorney demand, or inquiry received from state insurance departments or other regulatory agencies or legislative bodies, and in any settlement or trial of any actions arising out of the conduct of business under this Agreement.

c. Any response by BD or Associated Insurance Agency to an individual customer complaint will be sent to Allstate Life and/or ALFS for approval not less than five (5) business days prior to it being sent to the customer, except that if a more prompt response is required, the proposed response may be communicated by telephone, facsimile or in person.

19. BOOKS, ACCOUNTS AND RECORDS

a. Allstate Life, ALFS, BD and Associated Insurance Agency agree to maintain books, accounts and records so as to clearly and accurately disclose the nature and details of transactions relating to the Contracts and to assist each other in the timely preparation of their respective books, accounts and records. BD and Associated Insurance Agency shall upon request submit such books, accounts and records to the regulatory and administrative bodies which have jurisdiction over Allstate Life or the Funds.

b. Each party to this Agreement shall promptly furnish to the other parties any reports and information which another party may request for the purpose of meeting, its reporting and record keeping obligations under the insurance laws of any state, and under the federal and state securities laws or the rules of the NASD.

20. LIMITATIONS

No party other than Allstate Life shall have authority on behalf of Allstate Life to make, alter, or discharge any Contract issued by Allstate Life, to waive any forfeiture provision or to grant, permit, or extend the time of making any Payments, or to alter the forms which Allstate Life may prescribe or substitute other forms in place of those prescribed by Allstate Life or to enter into any proceeding in a court of law or before a regulatory agency in the name of or on behalf of Allstate Life.

21. CONFIDENTIALITY

Each party to this Agreement shall maintain the confidentiality of any material designated as proprietary by another party, and shall not use or disclose such information without the prior written consent of the party designating such material as proprietary.

22. TERMINATION

a. This Agreement may be terminated at the option of any party upon ten (10) days written notice to the other parties, or at the option of any party hereto upon the breach by any party of the covenants and terms of this Agreement. Paragraph 12 shall survive any such termination.

b. This Agreement may be terminated immediately for cause upon an event of default, such termination shall be deemed to occur as of the date immediately preceding the event of default. An "event of default" shall occur when the first of the (i) BD or Associated Insurance Agency files for bankruptcy, or financial or corporate reorganization under federal or state insolvency law; (ii) applicable laws or regulations prohibit BD or Associated Insurance Agency from continued marketing of the Contracts.

23. NOTICE

a. In the event of sale, transfer or assignment of a controlling interest in BD or Agency, notice shall be provided in writing to Allstate Life no less than thirty (30) days prior to the closing date.

b. All notices to Allstate Life and ALFS relating to this Agreement will be duly provided by certified or express mail to:

General Counsel
Allstate Life Insurance Company
3100 Sanders Road
Northbrook, Illinois 60062

c. All notices to BD and Associated Insurance Agency relating to this Agreement will be duly provided by certified or express mail to:

General Counsel
Lincoln Benefit Life Centre
Lincoln, Nebraska 68501-0469.

24. SEVERABILITY

Should any provision or part of this Agreement is held invalid for any reason, such invalidity will not affect any other provision or part of this agreement not held invalid, and such remaining provisions and parts will remain in full force and effect.

25. GOVERNING LAW

This Agreement will be construed in accordance with the laws of the State of Illinois.

EXHIBIT A

GENERAL LETTER OF RECOMMENDATION

BD hereby certifies to Allstate Life Insurance Company ("Allstate Life") that all the following requirements will be fulfilled in conjunction with the submission of appointment papers for all applicants as agents of Allstate Life submitted by BD. BD will, upon request, forward proof of compliance with same to Allstate Life in a timely manner.

1. We have made a thorough and diligent inquiry and investigation relative to each applicant's identity, residence, business reputation, and experience and declare that each applicant is personally known to us, has been examined by us, is known to be of good moral character, has a good business reputation, is reliable, is financially responsible and is Worthy of appointment as a variable contract agent of Allstate Life. This inquiry and background investigation has included a credit and criminal check on each applicant. Based upon our investigation, we vouch for each applicant and certify that each individual is trustworthy, competent and qualified to act as an agent for Allstate Life to hold himself out in good faith to the general public.

2. We have on file the appropriate state insurance department licensing forms (i.e., B-300, B-301), or U-4 form which was completed by each applicant. We have fulfilled all the necessary investigative requirements for the registration of each applicant as a registered representative through our NASD member firm, and each applicant is presently registered as an NASD registered representative.

   The above information in our files indicates no fact or condition which would disqualify the applicant from receiving a license or appointment and all the findings of all investigative information is favorable.

3. We certify that all educational requirements have been met for the specific state each applicant is licensed in, and that, all such persons have fulfilled the appropriate examination, education and training requirements.

4. We certify that each applicant will receive close and adequate supervision, and that we will make inspection when needed of any or all risks written by these applicants, to the end that the insurance interest of the public will be properly protected.

5. We will not permit any applicant to transact insurance as an agent until duly licensed and appointed by Allstate Life. No applicants have been given a contract or furnished supplies, nor have any applicants been permitted to write, solicit business, or act as an agent in any capacity on behalf of Allstate Life, and they will not be so permitted until the certificate of authority applied for is received.

SCHEDULE A

SCHEDULE OF COMMISSIONS

Subject to terms and conditions of the Selling Agreement, Associated Insurance Agency shall be compensated for VA Contracts issued according to the following chart (based upon the option selected in writing by each Agent or Representative):

ALLSTATE SELECT DIRECTIONS (SM) VARIABLE ANNUITY

COMMISSION OPTIONS

ISSUE AGE	A	B
All	6.5%*	

5.0%* no
trail .40%
trail**

*= Based upon purchase payment.

** = Trail commissions are based on the Contract Value on the last day of each contract quarter beginning with the last day of the 15th contract month. Trail commissions will be paid at the end of the calendar month in which the contract quarter ends beginning with the 15th contract month and ending when the contract is annultized. The contract must be in effect through the end of the calendar month for a trail commission to be paid.

COMMISSION CHARGEBACKS

TRANSACTION
PERIOD OF
CHARGEBACK
CHARGEBACK
PLEASE
NOTE - ---

Surrender
During the
100% of
commission.
first
contract
year

EXHIBIT 10.7

SELLING AGREEMENT
ALLSTATE LIFE INSURANCE COMPANY OF NEW YORK

Agreement, made this 17th day of May, 2001, by and among Allstate Life Insurance Company of New York ("Allstate Life of New York"), a New York life insurance company; ALFS, Inc. ("ALFS"), a Delaware corporation; Allstate Financial Services ("Broker-Dealer" or "BD"), a New York corporation; and ________ ("Associated Insurance Agency"), a Delaware corporation.

ALLSTATE LIFE INSURANCE COMPANY OF NEW YORK	ALFS, INC.
By: /s/John R. Hunter	By: /s/ Lisa A. Burnell
Title: V.P.	Title: AVP & Chief Compliance Officer Lisa A. Burnell

BROKER DEALER	ASSOCIATED INSURANCE AGENCY

Allstate Financial Services, LLC
(Name)

2920 S 84th St
(Street Address)

Lincoln NE 68506
(City, State, Zip)

By: /s/ Carole Lambert

Print Name: Carole Lambert

Title: VP, Operations

WHEREAS, Allstate Life of New York issues certain insurance products and group and individual insurance contracts/policies and certificates participating therein (collectively, "Contracts") described further in this Agreement and attached Schedules, some of which may be deemed securities ("Registered Contracts") under the Securities Act of 1933 ("1993 Act"); and

WHEREAS, Allstate Life of New York has appointed ALFS, a broker/dealer, as the Underwriter of the Registered Contracts; and

WHEREAS, BD is a broker/dealer engaged in the sale of securities and other Investment products; and

WHEREAS, each Associated Insurance Agency is an Insurance agent in the states noted above; and

WHEREAS, in the event that Associated Insurance Agency and BD are the same person, the duties, responsibilities and privileges of Associated Insurance Agency under this Agreement shall be undertaken by BD; and

WHEREAS, Allstate Life of New York and ALFS propose to authorize BD and Associated Insurance Agency to solicit sales of the Contracts;

NOW THEREFORE, in consideration of the premises and mutual promises contained herein including the attached Schedule and Exhibits, the parties hereto agree as follows:

1. SUCCESSOR ORGANIZATIONS

   a. Allstate Life of New York shall, in its sole discretion, have the right to appoint a successor broker/dealer ("successor broker/dealer") to replace ALFS as Underwriter of the Registered Contracts. Upon appointment, successor broker/dealer shall assume all duties, responsibilities and privileges undertaken by ALFS under this Agreement. Allstate Life of New York shall provide written notice of such change in appointment to BD and Associated Insurance Agency.

b. Upon written notice to ALFS, BD shall have the right to appoint a successor BD to assume its duties, responsibilities and privileges under this Agreement. ALFS reserves the right to reject the appointment of any successor BD and shall provide written notice of such rejection to BD.

c. Upon written notice to Allstate Life of New York, Associated Insurance Agency shall have the right to appoint a successor Associated Insurance Agency or additional Associated Insurance Agencies to assume its duties, responsibilities and privileges under this Agreement. Allstate Life reserves the right to reject the appointment of any successor Associated Insurance Agency or additional Associated Insurance Agencies and shall provide written notice of such rejection to Associated Insurance Agency

2. APPOINTMENT AND AUTHORIZATION

ALFS hereby authorizes BD to solicit sales of the Contracts that are described more specifically in the Commission Schedule(s) attached hereto. Allstate Life of New York hereby appoints Associated Insurance Agency to solicit sales of the Contracts. BD and Associated Insurance Agency accept such appointment and authorization, and each agrees to use its best efforts to find purchasers of the Contracts acceptable to Allstate Life of New York.

3. REPRESENTATIONS

a. Allstate Life of New York, ALFS, BD and Associated Insurance Agency each represents to one another that it and the officers signing above have full power and authority to enter into this Agreement, and that this Agreement has been duly and validly executed by it and constitutes a legal, valid and binding agreement.

b. ALFS represents to BD that ALFS (and any successor broker/dealer) is registered as a broker/dealer with the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934 ("1934 Act") and under the state securities laws of each Jurisdiction in which such registration is required for underwriting the Contracts, and that it is a member of the National Association of Securities Dealers, Inc. (the "NASD").

c. BD represents to ALFS that BD is, and at all times when performing its functions and fulfilling it obligations under this Agreement, will be, registered with the SEC as a broker/dealer under the 1934 Act and under the state securities laws of each jurisdiction in which such registration is required for the sale of the Contracts, and a member of the NASD. BD will notify ALFS in writing if such registration is terminated or suspended, and shall take all reasonable actions to reinstate such registrations.

d. BD represents to ALFS that BD has adopted supervisory procedures, and its compliance manual addresses: (i) maintenance of appropriate level of net capital; (ii) suitability review; (iii) misrepresentations; and (iv) churning/replacements.

e. Associated Insurance Agency represents to ALFS and Allstate Life of New York that Associated Insurance Agency is, and at all times when performing its functions and fulfilling its obligations under this Agreement, will be, a properly licensed insurance agency in each jurisdiction in which such licensing is required for the sale of the Contracts.

f. Allstate Life of New York represents to BD that the Registered Contracts, including any variable separate account(s) supporting such Registered Contracts, shall comply in all material respects with the registration and other applicable requirements of the 1933 Act and the Investment Company Act of 1940, and the rules and regulations thereunder, including the terms of any order of the SEC with respect thereto.

g. Allstate Life of New York represents to BD and Associated Insurance Agency that the Contracts it issues have been filed and approved by the state insurance departments in such jurisdictions where it is authorized to transact business and such filing and approval are required prior to the Issuance of Contracts therein.

h. Allstate Life of New York represents to BD that the prospectuses included in Allstate Life of New York's Registration Statement for the

Registered Contracts, and in post-effective amendments thereto, and any supplements thereto, as filed or to be filed with the SEC, as of their respective effective dates, contain or will contain in all material respects all statements and information which are required to be contained therein by the 1933 Act and conform or will conform in all material respects to the requirements thereof.

4. COMPLIANCE WITH REGULATORY REQUIREMENTS

BD shall abide by all rules and regulations of the NASD governing the sale of the Variable Contracts, including, but not limited to, requirements regarding (i) net capital; (ii) suitability review; (iii) misrepresentations; and (iv) churning/replacements. BD and Associated Insurance Agency shall comply with all applicable state and federal laws and the rules and regulations of governmental or regulatory agencies affecting or governing the sale of the Contracts. BD and Associated Insurance Agency shall comply with all applicable administrative procedures of Allstate Life of New York and ALFS.

5. LICENSING AND/OR APPOINTMENT OF REPRESENTATIVES

a. BD and Associated Insurance Agency are hereby specifically authorized to designate those registered representatives of BD, or individuals associated with the Associated Insurance Agency ("Agents"), proposed to be engaged in solicitation of sales of the Contracts for appointment by Allstate Life of New York as individual insurance agents. BD and Associated Insurance Agency shall not propose a registered representative, or Agent, for appointment unless such representative, or Agent, is duly licensed as an insurance agent in the state(s) in which it is proposed that such representative, or Agent, engage in solicitations of sales of the Contracts. BD and Associated Insurance Agency together shall be responsible for registered representatives', and Agents', compliance with applicable state insurance agent licensing laws.

b. BD and Associated Insurance Agency shall assist Allstate Life of New York and ALFS in the appointment of BD's registered representatives, and Agents, under applicable insurance laws, to sell the Contracts. BD and Associated Insurance Agency shall comply with Allstate Life of New York requirements for, including the General Letter of Recommendation (attached as Exhibit A), in submitting licensing or appointment documentation for proposed registered representatives and Agents. All such documentation shall be submitted by BD or Associated Insurance Agency to Allstate Life of New York or its designated agent licensing administrator.

c. BD and Associated Insurance Agency agree to allow Allstate Life of New York to use any agent appointment information in the possession of any of Allstate Life of New York's affiliates or subsidiaries to assist in appointing BD's registered representatives and Associated Insurance Agency's Agents to sell the Contracts under applicable insurance laws.

d. Allstate Life of New York reserves the right to refuse to appoint any such designated Individual or, once appointed, to terminate or refuse to renew the appointment of any such designated individual. Only those registered representatives who are duly licensed as Insurance agents and appointed by Allstate Life of New York (herein, "Representatives") shall have authority to solicit sales of the Contracts. Only those Agents who are registered representatives of BD shall have authority to solicit sales of the Registered Contracts. Agents who are not registered representatives of BD shall be limited to selling those Contracts which are not Registered Contracts ("Fixed Contracts"). BD and Associated Insurance Agency shall notify ALFS immediately in writing if any Representative appointed by Allstate Life of New York ceases to be a registered representative of BD or if any Representative or Agent ceases to be properly licensed in any state

6. SUPERVISION OF REPRESENTATIVES AND AGENTS

a. BD shall have full responsibility for training and supervision of all Representatives and all other persons associated with BD who are involved directly or indirectly in the offer or sale of the Registered Contracts, and all such persons shall be subject to the control of BD with respect to such persons' activities in connection with the sale of the Registered Contracts. Associated Insurance Agency shall have full responsibility for training and supervision of all Agents who are involved directly or indirectly in the offer or sale of the Contracts and for Agent's compliance with applicable state Insurance laws.

b. Allstate Life of New York and ALFS shall not have responsibility for the training and supervision of any Representative or Agency. BD and Associated Insurance Agency each agree to comply with Allstate Life of New York's statement in support of the concepts in the Principles and Code of Ethical Market Conduct of the Insurance Marketplace Standards Association (the "IMSA Principles and Code"), as such statement may be amended from time to time, and to engage in active and fair competition as contemplated by the IMSA Principles and Code. A copy of Allstate Life of New York's current statement in support of the IMSA Principles and Code is attached as Exhibit B.

c. Before Representatives engage in the solicitation of applications for the Registered Contracts, BD and Associated Insurance Agency will cause the Representatives (1) to be registered representatives of BD; (2) to be licensed, registered or otherwise qualified under applicable federal and state laws to engage in the sale of the Contracts; (3) to be trained in the sale of the Contracts; and (4) to limit solicitation of applications for the Contracts to jurisdictions where Allstate Life of New York has authorized such solicitations.

d. Before Representatives or Agents engage in the solicitation of applications for the Fixed Contracts, Associated Insurance Agency will cause such individuals (1) to be licensed or otherwise qualified under applicable laws to engage in the sale of the Fixed Contracts; (2) to be trained in the sale of the Fixed Contracts; and (3) to limit solicitation of applications for the Fixed Contracts to jurisdictions where Allstate Life of New York has authorized such solicitations.

e. BD is specifically charged with the responsibility of supervising and reviewing its Representatives' use of sales literature and advertising and all other communications with the public in connection with the Contracts. With regard to Registered Contracts, no sales solicitation, including the delivery of supplemental sales literature or other such materials, shall occur, be delivered to, or used with a prospective purchaser unless accompanied or preceded by the appropriate then current prospectus(es), the then current prospectus(es) for the underlying funds funding any variable contracts (the "Funds") and, where required by state insurance law, the then current statement of additional information for any variable contracts.

f. BD shall execute any electronic or telephone orders only in accordance with the current prospectus applicable to the Contracts and agrees, that in consideration for the telephone transfer privileges, Allstate Life of New York will not be liable for any loss incurred as a result of acting upon electronic or telephone instructions containing unauthorized, incorrect or incomplete information received from BD or its representatives.

g. Upon request by Allstate Life of New York, BD and Associated Insurance Agency shall furnish appropriate records or other documentation to evidence BD's and Associated Insurance Agency's diligent supervision.

h. In the event a Representative or Agent performs any unauthorized transaction(s) with respect to a Contract(s), BD shall bear sole responsibility, shall notify Allstate Life of New York and shall act to terminate the sales activities of such Representative or Agent relating to the Contract(s).

i. In the event a Representative or Agent fails to meet the BD's or Associated Insurance Agency's rules and standards, BD or Associated Insurance Agency, as the case may be, shall notify Allstate Life of New York and shall act to terminate the sales activities of such Representative or Agent relating to the Contracts.

7. SALES PROMOTION MATERIAL AND ADVERTISING

a. BD, Associated Insurance Agency, Agents and Representatives, in connection with the offer or sale of the Contracts or solicitation of a payment or other transaction under a Contract, shall not give any information or make any representations or statements, written or oral, concerning the Contracts or a Fund, inconsistent with information or representations contained, in the case of a Registered Contract, in the prospectus, statement of additional information and registration statement for the Contracts or such Fund, or in reports or proxy statements thereof, or in promotional, sales or advertising material or other information supplied and approved in writing by ALFS for such use, or in the case of Fixed Contracts, in the contracts or materials furnished by Allstate Life of New York. BD, Associated Insurance Agency, Agents and Representatives may not modify or represent that they may modify any such prospectus, statement of additional information, registration statement, promotional, sales or advertising materials.

b. No item of sales promotion materials or advertising relating to the Contracts, including any illustrations or software programs therefore, shall be used by BD, Associated Insurance Agency, Agents or Representatives unless the specific item has been provided by Allstate Life of New York and ALFS or has first been approved in writing by Allstate Life of New York and ALFS for use. Allstate Life of New York and ALFS reserve the right to recall any material provided by them at any time for any reason, and BD and

Associated Insurance Agency shall promptly comply with any such request for the return of material and shall not use such material thereafter.

8. SOLICITING APPLICATIONS AND PAYMENTS

a. All applications for Contracts shall be made on application forms supplied by Allstate Life of New York. BD, Associated Insurance Agency, Agents and the Representatives shall not recommend the purchase of a Contract to a prospective purchaser unless it has reasonable grounds to believe that such purchase is suitable for the prospective purchaser and is in accordance with applicable regulations of any state insurance commission, and with respect to Registered Contracts, the SEC and the NASD. While not limited to the following, a determination of suitability shall be based on information concerning the prospective purchaser's insurance and investment objectives and financial situation and needs. All such determinations of suitability shall be approved by a Principal of BD before forwarding such application to Allstate Life of New York and ALFS.

b. BD and Associated Insurance Agency shall review applications for completeness and correctness, as well as compliance with the suitability standards specified above. BD will promptly, but in no case later than the end of the next business day following receipt by BD or a Representative, forward to Allstate Life of New York according to administrative procedures all complete and correct applications for suitable transactions, together with any payments received with the applications, without deduction for compensation unless there has been a mutual arrangement for net wire transmissions between ALFS, Allstate Life of New York and BD. Allstate Life of New York reserves the right to reject any Contract application and return any payment made in connection with an application that is rejected.

c. Contracts issued on accepted applications will be forwarded to BD for delivery to the Contract Owner according to procedures established by Allstate Life of New York, unless Allstate Life of New York has provided otherwise. BD shall cause each such Contract to be delivered to the respective Contract Owner within five days after BD's receipt. BD shall be liable to Allstate Life of New York for any loss incurred by Allstate Life of New York (including consequential damages and regulatory penalties) as a result of any delay by BD or a Representative in delivering such Contract.

d. BD, Associated Insurance Agency, Agents and Representatives shall not encourage a prospective purchaser to surrender or exchange a Contract in order to purchase another insurance policy or contract except when a change in circumstances makes the Contract an unsuitable investment for the Contract owner.

9. PAYMENTS RECEIVED BY BD

All premium payments (hereinafter collectively referred to as "Payments") are the property of Allstate Life of New York and shall be transmitted to Allstate Life of New York by BD immediately upon receipt by BD or Associated Insurance Agency or any Agent or Representative in accordance with the administrative procedures of Allstate Life of New York, without any deduction or offset for any reason, including by example but not limitation any deduction or offset for compensation claimed by BD, CUSTOMER CHECKS SHALL BE MADE PAYABLE TO THE ORDER OF "ALLSTATE LIFE INSURANCE COMPANY OF NEW YORK." Allstate Life of New York reserves the right to reject any Payment for any reason.

10. COMMISSIONS PAYABLE

a. Commissions payable in connection with the Contracts shall be paid to

Associated Insurance Agency according to the Commission Schedule(s) relating to this Agreement in effect at the time of receipt by Allstate Life of New York of the payment or transaction request on which such commissions are based. If available, a Commission Option(s) may: (1) be elected by BD and Associated Insurance Agency on behalf of all of its Representatives or Agents or (2) may be elected by each Representative or Agent at the time of Application. Any election made and applied to a Contract may not be changed and will be in effect for the life of the Contract. Allstate Life of New York and ALFS reserve the right to revise the Commission Schedule(s) for new business at any time upon at least thirty (30) days prior written notice to BD and Associated Insurance Agency.

b. Compensation to the Representatives or Agents for Contracts solicited by the Representatives or Agents and issued by Allstate Life of New York will be governed by agreements between BD or the Associated Insurance Agency and their respective Representatives or Agents and payment thereof will be the BD's or Associated Insurance Agency's sole responsibility.

11. REFUND OF COMMISSIONS

If Allstate Life of New York is required to refund premiums or return contract values and waive surrender charges on any Contract for any reason, then commission will be adjusted with respect to said premiums or Contract as set forth in the Commission Schedule, and any commission previously paid for said premiums must be refunded to Allstate Life of New York or ALFS. ALFS shall have the right to offset any such refundable commission against amounts otherwise payable by ALFS. ALFS agrees to notify BD and Associated Insurance Agency within thirty (30) days after it receives notice from Allstate Life of New York of any premium refund or a commission charge back.

12. ASSOCIATED INSURANCE AGENCY

BD and the Associated Insurance Agency represent that they are in compliance with the terms and conditions of no-action letters issued by the staff of the SEC with respect to non-registration as a broker/ dealer of an insurance agency associated with a registered broker/dealer. BD and Associated Insurance Agency shall notify ALFS immediately in writing if BD and/or such agency fill to comply with any such terms and conditions and shall take such measures as may be necessary to comply with any such terms and conditions. If Associated Insurance Agency is the same person as BD, this Paragraph 12 does not apply, and BD shall undertake all the duties, responsibilities and privileges under this Agreement.

13. HOLD HARMLESS AND INDEMNIFICATION PROVISIONS

a. No party to this Agreement will be liable for any obligation, act or omission of any other party. BD and Associated Insurance Agency will hold harmless and indemnify Allstate Life of New York and ALFS, and conversely, Allstate Life of New York and ALFS will hold harmless and indemnify BD and Associated Insurance Agency for any loss or expense suffered as a result of the violation or noncompliance by the Indemnifying party of or with any applicable law or regulation or any provision of this Agreement. Further, any BD violation or noncompliance by an associated person, as defined in Article 1 of the NASD By-Laws, would be covered under this provision.

b. Without limiting the above paragraph, in situations when "as of" pricing is necessary in connection with the Contracts (and a loss is incurred to compensate the Contract owner for reduced Contract values) the party whose actions resulted in the loss will bear the costs according to pricing procedures established by Allstate Life of New York.

14. NON-ASSIGNABILITY PROVISION

This Agreement may not be assigned by any party except by mutual consent of all other parties.

15. NON-WAIVER PROVISION

Failure of any party to terminate the Agreement for any of the causes set forth in this Agreement will not constitute a waiver of that party's right to terminate this Agreement at a later time for any of these causes.

16. AMENDMENTS

Except as stated in Paragraph 10, no amendment to this Agreement will be effective unless it is in writing and signed by all the parties hereto.

17. RECERTIFICATION

BD and Associated Insurance Agency shall, on a periodic basis determined by Allstate Life of New York and ALFS, certify that they are in compliance with all terms and provisions of this Agreement.

18. INDEPENDENT CONTRACTORS

BD and its Representatives, and Associated Insurance Agency and its Agents, are Independent contractors with respect to Allstate Life of New York and ALFS.

19. NOTIFICATION OF CUSTOMER COMPLAINTS OR DISCIPLINARY PROCEEDINGS

a. BD and Associated Insurance Agency agree to notify ALFS promptly of any customer complaints or disciplinary proceedings against BD, Associated Insurance Agency or any Representatives of Agents relating to the Contracts or any threatened or filed arbitration action or civil litigation arising out of solicitation of the Contracts.

b. BD and Associated Insurance Agency shall cooperate with Allstate Life of New York in Investigating and responding to any customer complaint, attorney demand, or inquiry received from state insurance departments or other regulatory agencies or legislative bodies, and in any settlement or trial of any actions arising out of the conduct of business under this Agreement.

c. Any response by BD or Associated Insurance Agency to an individual customer complaint will be sent to Allstate Life of New York and ALFS for approval not less than five (5) business days prior to it being sent to the customer, except that if a more prompt response is required, the proposed response may be communicated by telephone, facsimile or in person.

20. BOOKS, ACCOUNTS AND RECORDS

a. BD and Associated Insurance Agency agree to maintain books, accounts and records so as to clearly and accurately disclose the nature and details of transactions relating to the Contracts and to assist Allstate Life of New York and ALFS in the timely preparation of their respective books, accounts and records. BD and Associated Insurance Agency shall upon request submit such books, accounts and records to the regulatory and administrative bodies which have jurisdiction over Allstate Life of New York or the Funds.

b. Each party to this Agreement shall promptly furnish to the other parties any reports and information which another party may request for the purpose of meeting its reporting and record keeping obligations under the Insurance laws of any state, and under the federal and state securities laws or the rules of the NASD.

21. LIMITATIONS

No party other than Allstate Life of New York shall have authority on behalf of Allstate Life of New York to make, alter, or discharge any Contract issued by Allstate Life of New York to waive any forfeiture provision or to grant, permit, or extend the time of making any Payments, or to alter the forms which Allstate Life of New York may prescribe or substitute other forms in place of those prescribed by Allstate Life of New York or to enter into any proceeding in a court of law or before a regulatory agency in the name of or on behalf of Allstate Life of New York.

22. CONFIDENTIALITY

Each party to this Agreement shall maintain the confidentiality of any material designated as proprietary by another party, and shall not use or disclose such information without the prior written consent of the party designating such material as proprietary.

23. TERMINATION

a. This Agreement may be terminated at the option of any party upon ten (10) days written notice to the other parties, or at the option of any party hereto upon the breach by any party of the covenants and terms of this Agreement. Paragraph 13 shall survive any such termination.

b. This Agreement may be terminated immediately for cause upon an event of default. Such termination shall be deemed to occur as of the date immediately preceding the event of default. An "event of default" shall occur when the first of the (i) BD or Associated Insurance Agency files for bankruptcy, or financial or corporate reorganization under federal or state insolvency law; (ii) applicable laws or regulations prohibit BD or Associated Insurance Agency from continued marketing of the Contracts.

24. NOTICE

a. In the event of sale, transfer or assignment of a controlling interest in BD or Associated Insurance Agency, notice shall be provided in writing to Allstate Life of New York no less than thirty (30) days prior to the closing date.

b. All notices to Allstate Life of New York and ALFS relating to this Agreement will be duly provided by certified or express mail to:

Allstate Life Insurance Company of New York
c/o General Counsel
3100 Sanders Road
Northbrook, Illinois 60062

c. All notices to BD and Associated Insurance Agency will be duly provided if mailed to their respective address shown on the Agency Specification/Signature Page(s).

25. SEVERABILITY

Should any provision of this Agreement be held unenforceable, those provisions not affected by the determination of unenforceability shall remain in full force and effect.

26. GOVERNING LAW

This Agreement will be construed in accordance with the laws of the State of New York.

EXHIBIT A

GENERAL LETTER OF RECOMMENDATION

BD hereby certifies to Allstate Life Insurance Company of New York ("Allstate Life of New York") that all the following requirements will be fulfilled in conjunction with the submission of appointment papers for all applicants as agents of Allstate Life of New York submitted by BD. BD will, upon request, forward proof of compliance with same to Allstate Life of New York in a timely manner.

1. We have made a thorough and diligent inquiry and investigation relative to each applicant's identity, residence, business reputation, and experience and declare that each applicant is personally known to us, has been examined by us, is known to be of good moral character, has a good business reputation, is reliable, is financially responsible and is worthy of appointment as a variable contract agent of Allstate Life of New York. This inquiry and background investigation has included a credit and criminal check on each applicant. Based upon our investigation, we vouch for each applicant and certify that each individual is trustworthy, competent and qualified to act as an agent for Allstate Life of New York to hold himself out in good faith to the general public.

2. We have on file the appropriate state insurance department licensing forms (i.e. B-300, B-301), or U-4 form which was completed by each applicant. We have fulfilled all the necessary investigative requirements for the registration of each applicant as a registered representative through our NASD member firm, and each applicant is presently registered as a NASD registered representative.

   The above information in our files indicates no fact or condition which would disqualify the applicant from receiving a license or appointment and all the findings of all investigative information is favorable.

3. We certify that all educational requirements have been met for the specific state each applicant is licensed in, and that, all such persons have fulfilled the appropriate examination, education and training requirements.

4. We certify that each applicant will receive close and adequate supervision, and that we will make inspection when needed of any or all risks written by these applicants, to the end that the insurance interest of the public will be properly protected.

5. We will not permit any applicant to transact insurance as an agent until duly licensed and appointed by Allstate Life of New York. No applicants have been given a contract or furnished supplies, nor have any applicants been permitted to write, solicit business, or act as an agent in any capacity on behalf of Allstate Life of New York, and they will not be so permitted until the certificate of authority applied for is received.

EXHIBIT B

ETHICAL MARKET CONDUCT COMPLIANCE

BD and Associated Insurance Agency (also referred to as "you" or "your") are required to comply with Allstate Life of New York's policies and procedures concerning the replacement of life insurance policies and annuity policies. A replacement occurs whenever an existing life insurance policy or annuity is terminated, converted or otherwise changed in value.

For any transaction involving a replacement, Allstate Life of New York requires you to:

1. recommend the replacement of an existing policy only when replacement is in the best interest of the customer;

2. fully disclose all relevant information to the customer, which information includes: a) comparison of old and new premiums, expenses and surrender charges, cash values, and death benefits; b) any loss of cash value or policy value by surrendering the existing policy; c all guaranteed and maximum value of both policies; d) the fact that a new contestability and suicide period starts under the new policy; and e) the requirement that the customer must be re-underwritten for the new policy;

3. provide state-required replacement notices to customers on the same day the application is taken and indicate on the application that the transaction involves the full or partial replacement of an existing policy;

4. proceed with replacement of policies only after providing the customer with proper information and ensuring that the replacement is in the customer's best interest and that their needs are met.

BD and Associated Insurance Agency are required to adhere to Allstate Life of New York's rules and requirements concerning ethical market conduct, which require that you:

1. carefully evaluate the insurance needs and financial objectives of your clients, and use sales tools (e.g. policy illustrations and sales brochures) to determine that the insurance of annuity you are proposing meets those needs;

2. maintain a current license and valid appointment in all states in which you promote the sale of Allstate Life of New York products to customers and keep current of changes in insurance laws and regulations by reviewing the bulletins and newsletters that Allstate Life of New York publishes;

3. comply with Allstate Life of New York policies concerning replacements, and refrain from providing false or misleading information about a competitor or competing product or otherwise making disparaging remarks about a competitor;

4. submit all advertising materials intended to promote the sale of any Allstate Life of New York product to the home office for approval prior to use;

5. immediately report to Allstate Life of New York any customer complaints, whether written or oral, and assist Allstate Life of New York in resolving the complaint to the satisfaction of all parties;

6. communicate these standards to any producers or office personnel that you directly supervise and request their agreement to be bound by these conditions as well.

Allstate Life of New York and ALFS may terminate this Agreement without notice if you fall to comply with Allstate Life of New York's rules and requirements concerning the replacement of life insurance and annuities and Allstate Life of New York's rules and requirements concerning ethical market conduct.

Your right to any commissions, or any other thing of value shall cease if you violate laws and regulations governing unfair trade practices, life insurance and annuity advertising, replacement of life insurance and annuities, sales illustrations and agent licensing.

By promoting the sale of an Allstate Life of New York product to a customer, you agree to be bound by the terms and conditions of this Addendum without modification.

SCHEDULE A

SCHEDULE OF COMMISSIONS

Subject to terms and conditions of the Selling Agreement, Associated Insurance Agency shall be compensated for VA Contracts issued according to the following chart (based upon the option selected in writing by each Agent or Representative):

AIM LIFETIME PLUS VARIABLE ANNUITY

```
COMMISSION
OPTIONS --
----------
----------
 --------
 ISSUE AGE
A B - ----
----------
----------
----------
----------
----------
----- 0-80
   5.75%*
 4.75%* no
trail .25%
  trail**
   81-85
   4.75%*
 3.50%* no
trail .25%
  trail**
   86-90
   2.50%*
 1.25%* no
trail .25%
  trail**
```

* = Based upon purchase payment.

** = Trail commissions are based on the Contract Value on the last day of each contract quarter beginning with the last day of the 15th contract month. Trail commissions will be paid each calendar quarter beginning with the first calendar quarter following the 15th contract month and ending when the contract is annuitized; the contract must be in effect through the end of the contract quarter for a trail commission to be paid.

COMMISSION CHARGEBACKS

PERIOD OF
TRANSACTION
CHARGEBACK
CHARGEBACK

PLEASE NOTE
- ----------

-- Surrender
During the
"free look"
100% of
commission
N/A period
Annuitization
Months 1-12
following a
Commission
will be For
issue ages
81-85 on
purchase
payment
adjusted to
equal 4.25%
Option B and
ages 86-90,
Options A
and B, no
adjustment
will be made

SCHEDULE OF COMMISSIONS

Subject to terms and conditions of the Selling Agreement, Associated Insurance Agency shall be compensated for VA Contracts issued according to the following chart (based upon the option selected in writing by each Agent or Representative);

AIM LIFETIME PLUS II VARIABLE ANNUITY

COMMISSION
OPTIONS --

ISSUE AGE
A B - ----

----- 0-80
5.75%*
4.75%* no
trail .25%
trail**
81-85
4.75%*
3.50%* no
trail .25%
trail**
86-90
2.75%*
2.25%* no
trail .25%
trail**

* = Based upon purchase payment.

** = Trail commissions are based on the Contract Value on the last day of each contract quarter beginning with the last day of the 15th contract month. Trail commissions will be paid each calendar quarter beginning with the first calendar quarter following the 15th contract month and ending when the contract is annuitized; the contract must be in effect through the end of the contract quarter for a trail commission to be paid.

COMMISSION CHARGEBACKS

PERIOD OF
TRANSACTION
CHARGEBACK
CHARGEBACK
PLEASE NOTE
- ----------

-- Surrender
During the
"free look"
100% of
commission
N/A period
Annuitization
Months 1-12
following a
Commission
will be For
issue ages
81-85 on
purchase
payment
adjusted to
equal 4.25%
Option B and
ages 86-90,
Options A
and B, no
adjustment
will be made

SCHEDULE A

SCHEDULE OF COMMISSIONS

Subject to terms and conditions of the Selling Agreement, Associated Insurance Agency shall be compensated for VA Contracts issued according to the following chart (based upon the option selected in writing by each Agent or Representative):

ALLSTATE SELECT DIRECTIONS(SM) VARIABLE ANNUITY

COMMISSION
OPTIONS --

ISSUE AGE
A B - ----

----- All
7.0%*
5.5%* no
trail .40%
trail**

* = Based upon purchase payment.

** = Trail commissions are based on the Contract Value on the last day of each contract quarter beginning with the last day of the 15th contract month. Trail commissions will be paid at the end of the calendar month in which the contract quarter ends beginning with the 15th contract month and ending when the contract is annuitized. The contract must be in effect through the end of the calendar month for a trail commission to be paid.

COMMISSION CHARGEBACKS

PERIOD OF
TRANSACTION
CHARGEBACK
CHARGEBACK
PLEASE
NOTE - ---

Surrender
During the
first
contract
100% of
commission.
year

Exhibit 10.8

SELLING AGREEMENT

Agreement, made this 2nd day of August, 1999, by and between Lincoln Benefit Life Company ("LBL"), a Nebraska Corporation; Allstate Life Financial Services, Inc. ("ALFS"), a Delaware Corporation, and LSA Securities, Inc. ("BD"), an Oregon Corporation. This Agreement will be construed in accordance with the laws of the State of Nebraska.

LINCOLN BENEFIT LIFE COMANY:	ALLSTATE LIFE FINANCIAL SERVICE, INC.
By: /s/ Thomas J. Berney	By: /s/ Gregory C. Sernett
Thomas J. Berney	
BROKER/DEALER	ASSOCIATED INSURANCE AGENCY (If BD is utilizing such agency pursuant to Section 12)
LSA Securities, Inc.	
(Name)	(Name)
206 South 13th Street	
(Street Address)	(Street Address)
Lincoln, NE 68508	
(City, State, Zip)	(City, State, Zip)
By: /s/ Carol S. Watson	By:
Carol S. Watson	
Title: President	Title:
	For States:

Whereas, LBL issues certain variable insurance contracts/policies ("Contracts") described in this Agreement, which are deemed securities under the Securities Act of 1933 ("1933 Act"); and

Whereas, ALFS is duly licensed as a Broker/Dealer with the National Association of Securities Dealers, Inc. ("NASD") and the Securities and Exchange Commission ("SEC"); and

Whereas, BD is duly licensed as a Broker/Dealer with the NASD and the SEC, and

Whereas, each Associated Insurance Agency is an insurance agent in the states noted above; and

Whereas, LBL has appointed ALFS as the Underwriter of the Contracts, and

Whereas, LBL and ALFS propose to have Associated Insurance Agency and BD's representatives ("Representatives") who are also duly licensed insurance agents solicit sales of the Contracts, and

Whereas, ALFS delegates to BD, to the extent legally permitted, training and certain administrative responsibilities and duties in connection with sales of the Contracts.

NOW THEREFORE, in consideration of the premises and mutual promises contained herein the parties hereto agree as follows:

1. APPOINTMENT

ALFS hereby authorized BD to supervise solicitations of the Contracts, and to facilitate solicitations of sales of the Contracts which are described in the Schedule(s) of Commissions attached hereto. LBL hereby appoints Associated Insurance Agency to solicit sales of the contracts.

2. REPRESENTATIONS

a. LBL, ALFS, BD and Associated Insurance Agency each represents to the other that it and the above signed officers have full power and authority to enter into this Agreement.

b. ALFS represents to BD shall it is registered as a Broker/Dealer under the Securities Exchange Act of 1934 ("1934 Act") and under the Blue Sky Laws of each jurisdiction in which such registration is required for the sale of the Contracts and that ALFS is a member of the NASD.

c. BD represents to ALFS that it is registered as a Broker/Dealer under the 1934 Act and under the Blue Sky Laws of each jurisdiction in which such registration is required for the sale of the Contracts, and that BD is a member of the NASD.

d. LBL represents to BD and Associated Insurance Agency that the Contracts, including related separate accounts, shall comply with the registration and all other applicable requirements of the 1933 Act and the Investment Company Act of 1940, and the rules and regulations thereunder, including the letters of any order of the SEC with respect thereto.

e. LBL represents to BD and Associated Insurance Agency that the Contracts it issues have been duly filed and approved by the state insurance departments in such jurisdictions where it is authorized to contract business.

f. LBL represents to BD that the Contract prospectuses included in LBL's Registration Statement and in post-effective amendments therein, and any supplements thereto, as filed or to be filed with the SEC, as of their respective effective dates, contain or will contain. All statement and information which are required to be stated therein by the 1933 Act and in all respects conform or will conform, to the requirements thereof.

g. If BD utilizes an Associated Insurance Agency, BD represence that the Associated Insurance Agency in licensed in all states in which it conducts business. BD and the Associated Insurance Agency represent that they are in compliance with the terms and conditions of no-action letters issued by the staff of the SEC with respect to non-registration as a broker/dealer of an insurance agency associated with a registered broker/dealer. BD and Associated Insurance Agency shall notify ALFS immediately in writing if BD and/or such agency fall to comply with any such terms and conditions and shall take such measures as may be necessary to comply with any such terms and conditions. If Associated Insurance Agency is the same person as BD, this Paragraph g does not apply, and BD shall undertake all the duties, responsibilities and privileges under this Agreement.

h. BD represents to ALFS that it has adopted supervisory procedures and maintains a compliance manual that addresses:
(1) Maintenance of appropriate net capital,
(2) suitability review procedures for the production of variable products,
(3) proper selling methods to avoid misrepresentations,
(4) rules regarding the replacement/churning of variable products.

3. COMPLIANCE WITH NASD RULES OF FAIR PRACTICE AND FEDERAL AND STATE SECURITIES AND STATE INSURANCE LAWS

BD agrees to abide by all rules and regulations of the NASD, including its Conduct and Membership and Registration Rules, and BD and Associated Insurance Agency agree to comply with all applicable state and federal laws and the rules and regulations of authorized regulatory agencies affecting the sale of the Contracts.

4. LICENSING AND/OR APPOINTMENT OF REPRESENTATIVES

a. BD and Associated Insurance Agency are hereby specifically authorized to designate those registered representatives of BD, or individuals associated with the Associated Insurance Agency ("Agents"), proposed to be engaged in solicitation of sales of the Contracts for appointment by LBL as individual insurance agents. BD and Associated Insurance Agency shall not propose registered representative, or Agent, for appointment unless such representative, or Agent, is duly licensed as an insurance agent in the state(s) in which it is proposed that such representative, or Agent, engage in solicitations of sales of the Contracts. BD and Associated Insurance Agency together shall be responsible for registered representatives', and Agents', compliance with applicable state insurance agent licensing laws.

b. BD and Associated Insurance Agency shall assist LBL and ALFS in the appointment of BD's registered representatives; and Agents, under applicable insurance laws, to sell the Contracts. BD and Associated Insurance Agency shall comply with LBL requirements for, including the General Letter of Recommendation (attached as Exhibit A), in submitting licensing or appointment documentation for proposed registered representatives and Agents. BD and Insurance Agency agree to provide LBL and ALFS with a re-certification of those provisions set forth in the General Letter of Recommendation as may be requested from Section 2 above and time to time. All such documentation shall be submitted by BD or Associated Insurance Agency to LBL or its designated agent licensing administrator.

c. LBL reserves the right to refuse to appoint any such designated individual or, once appointed, to terminate or refuse to renew the appointment of any such designated individual. Only those registered representatives who are duly licensed as insurance agents and appointed by LBL (herein, "Representatives") shall have authority to solicit sales of the Contracts. Only those Agents who are registered representatives of BD shall have authority to solicit sales of the Contracts. Agents who are not registered representatives of BD are not authorized to sell Contracts. BD and Associated Insurance Agency shall notify ALFS immediately in writing if any Representative appointed by LBL ceases to be a registered representative of BD or if any Representative or Agent ceases to be properly licensed in any state.

5. SUPERVISION OF REPRESENTATIVES

a. BD shall have full responsibility for training and supervision of all Representatives associated with BD who are engaged directly or indirectly in the offer or sale of the Contracts and all such persons shall be subject to the control of BD with respect to such persons' activities in connection with the sale of the Contracts. BD shall comply with the administrative procedures of LBL and ALFS involving federal securities law and state insurance law. There should be a comparable Representative for the Associated Insurance Agency.

b. Before Representatives and Associated Insurance Agency engage in the solicitation of applications for the Contracts, BD and Associated Insurance Agency will cause (1) the Representatives to be registered representatives of BD; (2) the Representatives to qualify under applicable federal and state laws to engage in the sale of the Contracts; (3) the Representatives to be trained in the sale of the Contracts; and (4) such Representatives to limit solicitation of applications for the Contracts to jurisdictions where LBL has authorized such solicitation.

c. BD is specifically charged with the responsibility of supervising and reviewing its Representatives use of sale literature and advertising and all other communications with the public in connection with the Contracts. No sales solicitation, including the delivery of supplemental sales literature or other such materials, shall occur, be delivered to, or used with a prospective purchaser unless accompanied or preceded by the appropriate then current prospectus(es).

d. In the event a Representative or Agent falls to meet the BD's or Associated Insurance Agency's rules and standards, BD or Associated Insurance. Agency shall notify LBL and shall act to terminate the sales activities of such Representative or Agent relating to the Contracts.

e. Upon request by LBL, BD and Associated Insurance Agency shall furnish appropriate records or other documentation to evidence BD's and Associated Insurance Agency's diligent supervision.

6. SALES PROMOTION MATERIAL AND ADVERTISING

a. BD, Associated Insurance Agency, Agents and Representatives, in connection with the offer or sale of the Contracts or Solicitation or a payment or other transaction under a Contract, shall not give any information or make any representations or statements, written or oral concerning the Contracts inconsistent with information or representations contained in the prospectus, statement of additional information and registration statement for the Contracts or in reports or proxy statements thereof, or in promotional, sales or advertising material or other information supplied and approved in writing by ALFS for such use, in the contracts or materials furnished by LBL BD, Associated Insurance Agency, Agents and Representatives may not modify or represent that they may modify any such prospectus, statement of additional information, registration statement promotional sales or advertising materials.

b. No item of sales promotion materials or advertising relating to the Contracts, including any illustrations or software programs therefor, shall be used by BD, Associated Insurance Agency, Agents or Representatives unless the specific item has been provided by LBL and ALFS or has first been approved in writing by LBL and ALFS for use. LBL and ALFS reserve the right to recall any material provided by them at any time for any reason, and BD and Associated Insurance Agency shall promptly comply with any such request for the return of material and shall not use such material thereafter.

7. ETHICAL MARKET CONDUCT COMPLIANCE

In addition to the requirement that you comply with the rules and regulations pertaining to supervision, underwriting practices, acceptance of risks, delivery of policies and all other areas of LBL's business, the BD and BD's representatives are required to:

a. Comply with LBL's and ALFS's policies and procedures concerning the replacement of life insurance policies and security policies. A replacement occurs whenever an existing life insurance policy or annuity is terminated, converted, or otherwise changed in value. For any transaction involving a replacement, LPL and ALFS required you to:
   (1) recommend the replacement of an existing policy only when replacement in the best interest of the customer.
   (2) fully disclose all relevant information to the customer, which information includes: 1) comparison of old and new Premiums, expenses and surrender charges, cash values, and death benefits; 2) any loss of cash value or policy value by surrendering the existing policy; 3) all guaranteed and maximum values of both policies 4) the fact that a new contestability and suicide period starts under the new policy; and 5) the requirement that the customer must be re-underwritten for the new policy;
   (3) provide state required replacement notices to customers on the same day the application is taken and indicate on the application that the transaction in values the full or partial replacement of an existing policy;
   (4) never ??? that a customer cancel an existing policy until a new policy is in force and the customer has determined that the new policy is acceptable.

b. Adhere to LBL's rules and regulations concerning ethical market conduct, which require that you:
   (1) carefully evaluate the insurance needs and financial objectives of your clients, and use ??? tools (e.g. policy illustrations and sales brochures) to determine that the insurance or annuity you are proposing meets there needs:
   (2) maintain a current license and valid appointment in all states in which you promote the sale of LBL, products to customers and keep current of changes in insurance laws and regulations by reviewing the bullettin and newsletters that LBL publishes;
   (3) comply with LBL policies concurring replacements and refrain from providing false or misleading information about a competitor or competing product or otherwise making disparaging remarks about a competition
   (4) submit all advertising materials intended to promote the sale of an LBL product to the home office for approval prior to use.
   (5) immediately report to LBL any customer complaints, whether written or oral, and assist LBL in resolving the complaint to the satisfaction of all parties;
   (6) communicate these standards to any Producers or office personnel that you directly supervise and request their agreement to be bound by these conditions as well.

8. SECURING APPLICATIONS

All applications for Contracts shall be made on application forms supplied by LBL. BD will review all sales for suitability and all applications for completeness and correctness as to form. BD will promptly, but in no case later than the end of the next business day following receipt by BD or a Representative forward to LBL all complete and correct applications for suitable transactions, together with any payments received with the applications, without deduction for compensation, LBL reserves the right to reject any Contract application and return any payment made in connection with an application which is rejected, Contracts issued on accepted applications will be forwarded to BD or its Representative? for delivery to the Contract Owner.

9. PAYMENTS RECEIVED BY BD

All premium payments (hereinafter collectively referred to as "Payments") are the property of LBL and shall be transmitted to LBL by BD immediately upon receipt by BD or Associated Insurance Agency or any Agent or Representative in accordance with the administrative procedures of LBL without any deduction or offset for any reason. Including by example but not limitation, any deduction or offset for compensation claimed by BD. CUSTOMER CHECKS SHALL BE MADE PAYABLE TO THE ORDER OF "LINCOLN BENEFIT LIFE COMPANY"

10. COMMISSIONS PAYABLE

Commissions payable in connection with the contracts shall be paid to BD or Associated insurance Agency according to the Commission Schedule(s) relating to this Agreement as they may be amended from time to time and in effect at the time the Contract Payments are received by LBL LBL, reserves the right to revise the Commission Schedules at any time upon at least thirty (30) days prior written notice to BD. Compensation to the BD's Representatives for Contracts solicited by the Representatives and issued by LBL will be governed by agreement between BD and its Representatives and its payment will be the BD's responsibility

BD's right to any commissions, or any other thing of value shall case if BD or its representatives violate laws and regulations, including but not limited to, unfair trade practices, life insurance and annuity advertising, replacement of lif insurance and annuities, sales illustrations and agent licensing.

11. CANCELLATION OF POLICY

If LBL is required to refund premiums or return contract values and waive surrender charges on any Contract for any reason, then no commission will be payable with respect to said premiums and any commission previously paid for said premiums must be refunded to ALFS. ALFS agrees to notify BD within thirty (30) days after it receives notice from LBL of any premium refund or a commission chargeback.

12. ADDITIONAL PARTY TO THIS AGREEMENT

In the event that BD is not licensed as an insurance agency in any state where it wishes to solicit contracts, but utilizes an Associated Insurance Agency to satisfy state insurance laws, such Associated Insurance Agency shall sign this Agreement and BD shall countersign this Agreement, and BD and its Associated Insurance Agency shall be duly bound thereby.

13. HOLD HARMLESS AND INDEMNIFICATION PROVISIONS

No party to this Agreement will be liable for any obligation, act or omission of the other. Each party to this Agreement will hold harmless and Indemnity LBL, ALFS, and BD, as appropriate, for any laws or expenses suffered as a result of the violation or non compliance by that party or the Associated Persons of that party by any applicable law or regulation. The term "Associated Person" as used herein shall be defined consistently with the definition of such term as contained in Article I of the NASD By-Laws.

Without limiting the above paragraph, in situations when "as of pricing is necessary in connection with the Contracts (and a loss in incurred to compensate the Contract owner for reduced Contract values) the party whose actions resulted in the ??? will bear the ??? according to pricing procedures established by LBL.

14. NON-ASSICNABILITY PROVISION

This Agreement may not be assigned by any party except by mutual consent.

15. NON-WAIVER PROVISION

Failure of any party to terminate the Agreement for any of the causes set forth in this Agreement will not constitute waiver of the right to terminate this Agreement at a later time for any of these causes.

16. AMENDMENTS

Except as stated in Paragraph 10, no amendment to this Agreement will be effective unless it is in writing and signed by all the parties hereto.

17. INDEPENDENT CONTRACTORS

BD and its Representatives are independent contractors with respect to LBL and ALFS.

18. NOTIFICATION OF DISCIPLINARY PROCEEDINGS

a. BD and Associated Insurance Agency agree to notify ALFS in a timely fashion of any disciplinary proceedings against any of BD's Representatives soliciting sales of the Contracts or any thereowned or filed arbitration action or civil litigation listing out of BD's solicitation of the Contracts.

b. BD and Associated Insurance Agency shall cooperate with LBL in investigating and responding to any customer complaint, attorney demand, or inquiry received from state insurance departments or other regulatory agencies or legislative bodies, and in any settlement or trail of any actions arising out of the conduct of business under this Agreement.

c. Any response by BD or Associated Insurance Agency to an individual customer complaint will be sent to LBL and ALFS for approval not less than five (5) business days prior to it being sent to the customer, except that if a more prompt response is required, the proposed response may be communicated by telephone, facsimile or in person.

19. BOOKS AND RECORDS

a. LBL, ALFS, BD and Associated Insurance Agency agree to maintain the books, accounts and records so as to clearly and accurately disclose the nature and details of transactions and to assist each other in the timely preparation of records. ALFS and BD shall each submit such records to the regulatory and administrative bodies which have jurisdiction over LBL or the underlying mutual fund shares.

b. Each party to this Agreement shall promptly furnish to the other party any reports and information which the other party may request for the purpose of meeting its reporting and record keeping requirements under the insurance laws of any state, and under the federal and state securities laws or the rules of the NASD.

20. SUCESSOR ORGANIZATIONS

a. Upon written notice to ALFS, BD shall have the right to appoint a successor BD in assume its duties, responsibilities and privileges under this Agreement. ALFS reserves the right to reject the appointment of any successor BD and shall provide written notice of such rejection to BD.

b. Upon written notice to LBL. Associated Insurance Agency shall have the right to appoint a successor Associated Insurance Agency or additional Associated Insurance Agencies to assume its duties, responsibilities and privileges under this Agreement. LBL reserves the right to reject the appointment of any successor Associated Insurance Agency or additional Associated Insurance Agencies and shall provide written notice of such rejection to Associated Insurance Agency

21. CONFIDENTIALITY

Each party to this Agreement shall maintain the confidentiality of any material designated as proprietary by another party, and shall not use or disclose such information without the prior written consent of the party designated such material as proprietary.

22. LIMITATIONS

No party other than LBL shall have the authority on behalf of LBL to make, alter, or discharge any Contract issued by LBL, to waive any forfeiture or to grant, permit, or to extend the time of making any Payments, or to alter the forms which LBL may prescribe or substitute other forms in place of prescribed by LBL or to enter into any proceeding in a court of law or before a regulatory agency in the name of or on behalf of LBL

23. TERMINATION

This Agreement may be terminated at the option of any party upon ten (10) days written notice to the other parties, or at the option of any party hereto upon the breach by any party of the covenants and terms of this Agreement

24. NOTICE

All notices to LBL and ALFS relating to this Agreement should be sent to Lincoln Benefit Life Centre, Lincoln Nebraska 68501-0469. All notices to BD will be duly given if mailed to the address shown above.

25. SEVERABILITY

Should any provision of this Agreement be held unenforceable, those provisions not affected by the determination of unenforceability shall remain in full force and effect.

26. JURISDICTION AND VENUE

The execution and performance of this Agreement involves transacting business in the State of Nebraska by you with LBL. This agreement shall be governed by and construed according to the laws of the State of Nebraska. All actions with respect thereto shall be brought in a court of competent Jurisdiction in the State of Nebraska.

SCHEDULE OF COMMISSIONS

Subject to the terms and conditions of the Selling Agreement you shall be compensated for AFA generated business according to the following schedule of the policy forms shown. The payment of commissions is subject to the rules and practices of Lincoln Benefit Life Company ("LBL or COMPANY"). By submission of an application or the acceptance of commission, you agree to be bound by the provisions of this schedule.

Plan Name
Plan ? %
Of Premium
Trail
Commissions
Investor's
Select
Variable
Universal
Life VUL-
9390
Option A-
First Year
Target
Premium
110 -
Renewal
Premiums -
Up to
Target
4.00 -
Excess
(All
Years) -
Issue
Ages: 0-49
4.00 - 50-
54 3.00 -
55-59 2.00
\- 60-64
1.00 - 65+
0 -
Consultant
Variable
Universal
Life VUL-
9800
Option A-
First Year
Target
Premium
115 -
First Year
Excess and
Renewal
Years 2-5
4.00 -
Trail
Commission
(Years 6+)
.35

VARIABLE UNIVERSAL LIFE

(a) All premium paid into the policy during the first 12 months will be credited to the first year target premium until the full first year target premium has been paid. Any excess first year premium and all ??? premium will be commissioned as showed in the table.

(b) If a term plan is exchanged for a variable universal life policy, full first year commissions will be paid on the premium actually paid by the policy owner. No commission will be payable on premiums which are paid by applying a premium exchange allowance.

(c) No first year commission will be paid on any additional target premium resulting from a temporary substandard extra premium.

(d) Renewal commissions will not be paid on premiums paid under a continuation of premium rides.

(e) If the withdrawal charges are waived by the COMPANY when an existing policy value is rolled over to a new policy, commissions on the new policy will be reduced in accordance with the COMPANY'S published rules.

(f) The Primary Insured Term Rider ("Prime Term Rider") for Investor's Select VUL and Consultant VUL do not increase target premium for these plans. Premium paid in the first year reward the Prime Term Rider 'safety net' will be commissioned at the excess/renewal rate.

(g) For Investor's Select VUL.
1. For issue ages 0-69, the target premium is equal to the 'safety net' premium for the minimum guaranteed death benefit for issue ages 70+, the target is frozen as the age 69 level.
2. An increase in face amount after issue will not result in an increase in target premium for commission purposes.

(h) For Consultant VUL.
1. The target premium is equal to the 'safety net' premium for the minimum guaranteed death benefit for issue ages 0-57 for male smokers and unless smokers, and 0-67 for all other Underwriting classes. At all other issue ages the target is less than the 'safety net' premium.
2. The mail commission will be paid quarterly at a rate of .0875% of the net policy value for all Policies at less 78 months old.
3. An increase in face amount after issue will result in an increase in target premium based on Insured's obtained age at time or increase.

Effective Date: 8/1/99

LSA-001 8/99

Exhibit 10.9

MARKETING COORDINATION AND ADMINISTRATIVE SERVICES AGREEMENT

AMONG

ALLSTATE FINANCIAL SERVICES, L.L.C.
AND
ALLSTATE INSURANCE COMPANY
AND
ALLSTATE LIFE INSURANCE COMPANY

This Marketing Coordination and Administrative Services Agreement (this "Agreement") made and effective as of this 1st day of January, 2003, among ALLSTATE FINANCIAL SERVICES, L.L.C., a Delaware limited liability company ("AFS"), ALLSTATE INSURANCE COMPANY, an Illinois insurance company ("Allstate"), and ALLSTATE LIFE INSURANCE COMPANY, an Illinois insurance company ("ALIC").

WITNESSETH:

WHEREAS, Allstate desires that AFS provide certain administrative and supervisory services relating to the sale of financial products by Allstate representatives;

WHEREAS, ALIC desires that AFS provide certain marketing services relating to the promotion of registered securities products; and

WHEREAS, AFS desires to furnish or cause to be furnished to Allstate and ALIC certain services and facilities subject to the terms and conditions hereinafter set forth.

NOW, THEREFORE, it is agreed as follows:

1. AFS shall furnish or cause to be furnished to ALIC the services and facilities listed on Exhibit A, attached hereto. AFS and ALIC may, from time to time, agree that only certain of the listed services and facilities will be provided by AFS to ALIC. In exchange for such services and facilities, ALIC shall pay a marketing fee to AFS in the amount of Two Hundred Thousand Dollars ($200,000) per month.

2. AFS shall furnish or cause to be furnished to Allstate the services and facilities listed on Exhibit B, attached hereto. AFS and Allstate may, from time to time, agree that only certain of the listed services and facilities will be provided by AFS to Allstate. In exchange for such services and facilities, Allstate shall pay to AFS an affiliation fee of Three Hundred Fifty Dollars ($350) per Allstate exclusive agent or exclusive financial services representative who becomes a registered representative. The affiliation fee will be payable to AFS annually on January 31st, starting with January 31, 2003, and will be calculated based on the number of Allstate registered representatives as of December 31st of the prior year. Allstate also shall pay to AFS, on a quarterly basis, an additional Three Hundred Fifty Dollars ($350) per Allstate exclusive agent or exclusive financial services representative who becomes a registered representative during any calendar year, beginning with 2003.

3. Allocations for the above services and facilities shall be made by the parties in accordance with the general provisions of the NAIC expense classification and allocation guidelines applicable to all inter-company allocations between Allstate and its insurance affiliates. Such guidelines may be amended from time to time, in which case the allocation procedures for charges pursuant to this Agreement will also be amended. The parties will exercise reasonable judgment in implementing the expense classification and allocation guidelines. Additionally, AFS shall maintain proper documentation for revisions and communicate changes in allocation requirements to ALIC and Allstate in a timely manner.

4. AFS will exercise reasonable judgment in periodically reviewing the expenses incurred and the percentage thereof allocated. Allstate or ALIC may request a review of such expenses and their allocation and such review will occur promptly thereafter.

5. AFS will charge ALIC and Allstate for all the services and facilities provided pursuant to this Agreement via the monthly expense allocation process. Payments will be through the monthly intercompany settlement

process. The process will be completed by Allstate personnel in the most timely and effective method available.

6. AFS shall maintain such records as may be required relating to the accounting system of AFS, Allstate and ALIC.

7. Upon reasonable notice, and during normal business hours, Allstate and ALIC shall be entitled to, at their own expense, inspect records, which pertain to the computation of charges for the facilities or services provided pursuant to this Agreement. AFS shall at all times maintain correct and complete books, records and accounts of all services and facilities furnished pursuant to this Agreement. Allstate and ALIC shall have an unconditional right of ownership of, or at either party's option the right to obtain copies of, any records prepared on its behalf under this Agreement. The parties agree to make such records available to the Director of the Illinois Department of Insurance or his designees.

8. Allstate employees performing duties hereunder at all times during the term of this Agreement shall be in the employment, under the supervision and control of Allstate and shall not be deemed employees of AFS or ALIC. The scope of, and the manner in which, AFS provides facilities and services to Allstate and ALIC shall be reviewed periodically by the parties; and the compensation therefor may be adjusted periodically by mutual agreement of the parties. All services and facilities shall be of good quality and suitable for the purpose for which they are intended.

9. Any party may terminate this Agreement upon sixty (60) days prior written notice to the other parties.

9. AFS shall not assign its obligations or rights under this Agreement without the written consent of Allstate and ALIC. This Agreement may be terminated only upon the consent of AFS; provided, however, that in the event that the affiliate relationship of AFS with Allstate or ALIC ceases to exist, this Agreement shall terminate immediately with respect to such party.

10. All communications provided for hereunder shall be in writing, and if to AFS or ALIC, mailed or delivered to AFS or ALIC at its office at the address listed in its official Corporate records maintained by its Secretary, Attention: Secretary, or if to Allstate, mailed or delivered to its office at 3075 Sanders Road, Northbrook, Illinois 60062, Attention: Controller, or addressed to any party at the address such party may hereafter designate by written notice to the other parties.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed as of the day and year above written.

ALLSTATE FINANCIAL SERVICES,
L.L.C.

By /s/ Robert C. Doebler

Robert C. Doebler
Chief Operating Officer

ALLSTATE INSURANCE COMPANY

By /s/ Samuel H. Pilch

Samuel H. Pilch
Group Vice President and Controller

ALLSTATE LIFE INSURANCE
COMPANY

By /s/ James P. Zils

James P. Zils
Treasurer

Exhibit A to Marketing Coordination
and Administrative Services Agreement
Among Allstate Financial Services, LLC (AFS)
Allstate Life Insurance Company (ALIC)

Allstate Insurance Company (Allstate)
January 1, 2003

SCHEDULE OF AFS SERVICES TO ALIC

In consideration for the marketing fees payable hereunder from ALIC to AFS, AFS shall:

1. Promote, among its registered representatives, the sale of such registered securities and other financial products and services of ALIC as shall be agreed upon from time to time by AFS and ALIC.

2. Promote, supervise and monitor the suitability of recommendations made by AFS representatives in connection with the sale of ALIC products, as well as those provided by other issuers.

3. Provide the NASD-compliance review for all sales and marketing materials prepared for the promotion and communication of information regarding ALIC registered products, and handle the filing and regulatory clearance of such materials with the NASD.

4. Assist ALIC in providing training to its registered representatives in connection with ALIC products to be distributed by AFS.

5. Assist in serving ALIC customers by responding to product information inquiries and service requests received by AFS.

6. Assist in resolving any customer complaints received by AFS or ALIC in connection with the sale or administration of ALIC products.

7. Maintain and manage supervisory procedures and a network of field compliance and supervisory principals to protect both AFS and ALIC from exposure to legal and regulatory risks and liabilities.

8. Perform such other services as the parties may mutually agree upon from time to time.

Exhibit B to Marketing Coordination
and Administrative Services Agreement
Among Allstate Financial Services, LLC (AFS)
Allstate Life Insurance Company (ALIC)
Allstate Insurance Company (Allstate)
January 1, 2003

SCHEDULE OF AFS SERVICES TO ALLSTATE

In consideration for the affiliation fees payable hereunder from Allstate to AFS, AFS shall:

1. Coordinate, manage and maintain the registration, both NASD and State (where required), of all securities licenses for agents and employees of Allstate who apply to become registered representatives of AFS.

2. Assist with the training of Allstate representatives who become registered, such training to include information on general securities, variable insurance products, mutual funds, AFS policies and procedures, legal and regulatory requirements, suitability of sales recommendations, and other content AFS deems appropriate.

3. Provide each Allstate agent or employee, who becomes registered, with the AFS Registered Representative Manual.

4. Conduct annual compliance meetings and required continuing education programs for all Allstate agents or employees who become registered with AFS.

5. Review, approve and obtain regulatory clearance for any sales or marketing material submitted by Allstate agents or employees for use in the sale of AFS-approved products and services.

6. Review and supervise the suitability of all securities recommendations made by Allstate/AFS representatives.

7. Perform periodic office inspections of Allstate agent locations that are registered as branch offices of AFS.

8. Assist in resolving any customer complaints received by AFS regarding the sales conduct of any Allstate representative in

connection with AFS's securities business.

9. Maintain and manage supervisory procedures and a network of field compliance and supervisory principals to protect both AFS and Allstate from exposure to legal and regulatory risks and liabilities.

10. Perform such other services as the parties may mutually agree upon from time to time.

Exhibit 10.17

AGENT ACCESS AGREEMENT

This Insurance Agreement (hereinafter the "Agreement") is made by and between Allstate Insurance Company, an Illinois property and casualty insurance company, located in Northbrook, Illinois (hereinafter "AIC"), Allstate New Jersey Insurance Company, an Illinois property and casualty insurance company located in Bridgewater, New Jersey, (hereinafter "ANJ") Allstate Life Insurance Company, an Illinois life and health insurance company, located in Northbrook, Illinois (hereinafter "ALIC"), and Allstate Bank, a federal savings association, located in Vernon Hills, Illinois (hereinafter the "Bank"). This Agreement is executed this 17th day of March, 2004, and shall be effective as of January 1, 2002.

WHEREAS, AIC, ANJ and ALIC have developed a network of employee agents and independent contractor agents soliciting insurance and other financial services; and

WHEREAS, the Bank offers or will offer various consumer deposit and savings products and services, and consumer loan products and services, as more fully described in this Agreement; and

WHEREAS, the Bank desires to utilize AIC's, ANJ's and ALIC's network of agents to offer the Bank's consumer deposit and savings products to customers of AIC, ANJ and ALIC (hereinafter "Bank Products");

NOW, THEREFORE, the parties, in consideration of the mutual covenants, agreements and promises hereinafter contained, do hereby agree as follows:

A. RESPONSIBILITIES OF AIC, ANJ, AND ALIC

1) AIC and ANJ do not object to the Bank's utilization of the respective AIC and ANJ agents (hereinafter "Agents"), and ALIC does not object to the Bank's utilization of the Exclusive Financial Specialists (hereinafter "EFSs"), for, among other things, the solicitation of Bank Products, referral of customers to the Bank and assisting customers with respect to Bank Products.

2) AIC, ANJ and ALIC may, at any time and at their sole discretion, choose to exclude certain Agents and EFSs from participation in the solicitation of, and customer referral for, the Bank Products by providing the Bank with a list of those Agents' and EFSs' names and instructions that they be excluded. The Bank agrees that, immediately upon receipt of such list, it will refrain from accepting any application for Bank Products or customer referral submitted by an Agent or EFS so excluded. Applications for Bank Products already accepted by the Bank will not be affected by this Paragraph 2.

3) In the event an Agent has terminated his or her agreement with AIC or ANJ, as the case may be, or an EFS has terminated his or her agreement with ALIC, the Bank shall be notified by the terminating company of such fact.

B. RESPONSIBILITIES OF THE BANK

1) The Bank agrees that it will conduct, or arrange to have conducted, introduction orientation programs and education programs from time to time for Agents and EFSs, at no cost to, and no responsibility on the part of, AIC, ANJ or ALIC. The schedule to be followed shall be mutually agreed upon by the parties.

2) The Bank shall have the right, at its option, to terminate, for cause or otherwise, the authorization of any Agent or EFS as its agent. The Bank will notify AIC, ANJ or ALIC, as the case may be, of the termination of authorization of any Agent or EFS.

C. COMPENSATION TO AGENTS

1) Compensation payable to Agents and EFSs as contemplated under this Agreement will be remitted by the Bank to Agents and EFSs by utilizing AIC's, ANJ's, and ALIC's compensation system.

2) Within fifteen (15) days after the end of each month, the Bank shall provide to AIC, ANJ and ALIC a written accounting, specifying the compensation payable on all business under this Agreement during the previous month.

D. CONFIDENTIALITY

Any information regarding the Bank, its business or customers ("Confidential Information") will be held in strict confidence by AIC, ANJ, and ALIC. Confidential Information will not directly or indirectly be divulged, disclosed, sold or communicated to any other person or entity or used for any purpose other than such purposes as are expressly contemplated by this Agreement, except as otherwise required by judicial or regulatory authorities having jurisdiction in respect thereof, and except as otherwise allowed under applicable privacy laws and regulations.

E. TERM AND TERMINATION

This Agreement shall be effective as of the date first written above and shall remain in force until terminated as provided herein.

1) If any party breaches any material term or condition of this Agreement, the other parties may send written notice by certified, registered, or express mail to such party specifying the breach. In the event the breach is not cured within sixty (60) days thereafter, the aggrieved party may immediately terminate this Agreement upon written notice to the other parties by certified, registered or express mail.

2) Any party may terminate this Agreement without cause by sending written notice by certified, registered, or express mail to the other parties, such notice having been sent not less than sixty (60) days prior to the date upon which termination shall take effect.

3) At any time upon the written mutual consent of the parties.

F. WAIVER OR MODIFICATION INEFFECTIVE UNLESS WRITTEN

It is agreed that no waiver or modification of this Agreement or any covenant, addition, or limitation herein contained shall be valid unless agreed to in writing by authorized representatives of all parties and further that any waiver or modification shall not be offered or received in evidence in any proceeding or litigation between the parties hereto arising out of or affecting this Agreement or the rights or obligations hereunder, and the parties further agree that the provisions of this Section F may not be waived except as herein set forth.

G. SEVERABILITY

The invalidity or unenforceability of any provision or clause or portion thereof of this Agreement shall in no way impair or affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

H. WAIVER OF BREACH

The failure to insist upon strict compliance with any of the terms, covenants or conditions hereof shall not be deemed a waiver of such terms, covenants or conditions.

I. NOTICES

All notices which are required to be in writing shall be given by registered, certified, or express mail, or by fax, sent to the respective parties at the address indicated below or at such other address as may be required in writing by any party as to its own address:

IF TO THE BANK:

Allstate Bank
544 Lakeview Parkway
Vernon Hills, Illinois 60061
Attn: President

IF TO AIC:

Allstate Insurance Company
2775 Sanders Road

Northbrook, Illinois 60062
Attn: Secretary

IF TO ANJ:

Allstate New Jersey Insurance Company
721 U.S, Highway 202/206, Suite 300
Bridgewater, New Jersey 08807
Attn: Regional Counsel

IF TO ALIC:

Allstate Life Insurance Company
3100 Sanders Road
Northbrook, IL 60062
Attention: Secretary

Each notice will be effective upon receipt.

J. ENTIRE AGREEMENT

This Agreement embodies the entire understanding between the parties, and all prior correspondence, conversations, and memoranda are merged herein and are replaced hereby, and no change, alteration, or modification hereof may be made except in writing and signed by authorized representatives of all parties hereto.

K. BINDING EFFECT

This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

L. CONTROLLING LAW

This Agreement is entered into and shall be governed by the laws of the State of Illinois.

M. EXPENSES

All expenses and costs incurred by the Bank in connection with the performance of its duties under this Agreement, including but not limited to, mailing labels, stationary packages, and marketing materials, shall be borne by the Bank, except as stated herein.

IN WITNESS WHEREOF, the parties have caused this Agreement to be signed by their duly authorized officers,.

ALLSTATE BANK.

By: /s/ Clay S. Green
Name: Clay S. Green
Title: President

ALLSTATE LIFE INSURANCE COMPANY

By: /s/ James P. Zils
Name: James P. Zils
Title: Treasurer

ALLSTATE INSURANCE COMPANY

By: /s/ James P. Zils
Name: James P. Zils
Title: Vice President and Treasurer

ALLSTATE NEW JERSEY INSURANCE COMPANY

By: /s/ James P. Zils

Name: James P. Zils

Title: Vice President and Treasurer

Exhibit 10.29

CATASTROPHE REINSURANCE AGREEMENT

EFFECTIVE: JULY 1, 2003

(HEREINAFTER REFERRED TO AS THE "AGREEMENT")

MADE AND ENTERED INTO BY

AMERICAN HERITAGE LIFE INSURANCE COMPANY

(HEREINAFTER REFERRED TO AS THE "COMPANY")

AND

ALLSTATE LIFE INSURANCE COMPANY

(HEREINAFTER REFERRED TO AS THE "REINSURER")

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This Agreement is to indemnify the Company for Catastrophic loss in respect to the excess liability which may accrue to the Company as a result of any loss or losses which may occur during the term of this Agreement under all policies, riders, binders, contracts or certificates of insurance, or other evidences of liability (hereinafter called "policies") now inforce or which may hereafter come into force and embraces the Company's entire net retained portfolio of Individual Ordinary and Group Life and Individual and Group Accidental Death Benefits.

ARTICLE II - PARTIES TO THE AGREEMENT

This Agreement is solely between the Company and the Reinsurer. When more than one Company is named as a party to this Agreement, the first Company named shall be the agent of the other companies as to all matters pertaining to this Agreement. Performance of the obligations of each party under this Agreement shall be rendered solely to the other party.

ARTICLE III - REINSURANCE

As respects the subject matter of this Agreement, the Company will retain the first $500,000 ultimate net loss from each and every catastrophic accident occurring during the term of this Agreement and the Reinsurer agrees to indemnify the Company for the amount of ultimate net loss in excess of $500,000 for each and every catastrophic accident up to a maximum reimbursement of $5,000,000 for each and every catastrophic accident.

There will be no reinsurance coverage under this Agreement for any accident if the Company's ultimate net loss, net of all other reinsurance is less than $500,000 or if less than five lives are involved in the accident.

ARTICLE IV - REINSTATEMENT OF LIABILITY

In the event of any portion of the liability hereunder being exhausted by loss, the amount so exhausted shall be reinstated from the time of the occurrence of the loss after a payment of the remaining pro-rata share of the reinsurance premium for the coverage period. This payment is due within sixty (60) days of a catastrophe claim submission.

ARTICLE V - DEFINITIONS

The term "catastrophic accident" as used herein shall be understood to mean each and every accident or series of accidents arising out of one event or occurrence resulting in the death and/or dismemberment of five or more persons insured by the Company.

The term "death" as used herein shall be understood to mean:

a) In the case of accidental death benefits, any death which qualified for benefits under the original insuring clause issued to the insured by the Company.

b) In the case of life insurance, any death as a result of accidental drowning, asphyxiation or poisoning or bodily injuries, sustained solely through external accidental means directly and independently of all other causes within twelve (12) calendar months from the date of the accident causing such injury.

The term "dismemberment" as used herein shall be understood to mean any dismemberment which qualifies for benefits under the original policy issued by the Company.

The term "Loss Adjustment Expense," as used herein, shall mean expenditures by the Company, other than for office expenses and for the salaries and expenses of its employees, made in connection with the disposition of a claim, loss, or legal proceeding including investigation, negotiation, and legal expenses, court costs, statutory penalties and accrued interest, other than accrued interest which is part of a judgment. This term shall not include any amount paid or liability incurred by the Company as a result of its acts or omissions in the negotiation, settlement, defense of claims, including any extra-contractual damages, or as result of any acts or omissions in dealing with its policyholders.

ARTICLE VI - EXCLUSIONS

This Agreement shall not apply to:

1) Loss directly or indirectly occasioned by, happening through or in consequence of war, invasion (whether war be declared or undeclared), hostile action of any country (whether war declared or not), civil war, rebellion, usurped power, insurrection, explosions of weapons of war, terrorism, or acts of foreign enemies.
2) Nuclear attack, nuclear accident, radioactive contamination and/or release of nuclear or atomic energy.
3) All classes of business other than the Company's Individual Ordinary and Group Life and Individual and Group Accidental Death Benefits
4) Federal Employees Group Life Insurance.
5) Serviceman's Group Life Insurance.
6) Members of Armed Forces on active duty.
7) Group coverage on professional sports teams, except non-playing personnel not traveling on a regular basis with the team
8) Group coverage on airline personnel or their crews
9) Credit Card, airport ticket or booth accident business.
10) Assumed catastrophe reinsurance or the Company's participation in reinsurance pools, reinsurance facilities and underwriting syndicates, regardless of how such arrangements may be named.

ARTICLE VII - NET RETAINED LINES

This Agreement applies only to that portion of any insurance or reinsurance which the Company retains net for its own account, and in calculating the amount of any "Ultimate Net Loss" hereunder and also in computing the amount or amounts in excess of which this Agreement

attaches only loss or losses in respect of that portion of any insurance or reinsurance which the Company retains for its own account shall be included. The amount of the Reinsurer's liability hereunder in respect of any loss or losses shall not be increased by reason of the inability of the Company to collect from any other reinsurer, whether specific or general, any amounts which may have become due from them, whether such inability arises from the insolvency of such reinsurer or otherwise.

ARTICLE VIII - ULTIMATE NET LOSS

The term, "Ultimate Net Loss", as used herein, shall mean the actual loss sustained by the Company in the settlement of claims, payment of benefits, or satisfaction of judgments or awards, in accordance with the underlying contract, excluding loss adjustment expenses which shall be pro-rated and excluding extra-contractual damages which are not reinsured under this Agreement. However, reserves released by death and any recoveries, including recoveries under all reinsurances, are to be first deducted from such loss to arrive at the amount of liability, if any, attaching hereunder. Nothing, however, in this clause shall be construed as meaning that losses are not recoverable hereunder until the Net Loss of the Company has been ascertained.

All reserves released by death, recoveries, and payments recovered or expected to be received subsequent to a loss settlement under this Agreement, shall be applied as if recovered prior to the said settlement, and all necessary adjustments shall be made by the parties hereto.

For the purposes of computing Ultimate Net Loss hereunder, the Company's maximum retention on any one life shall be deemed not to exceed the following:

Individual Life:	$ 250,000
Accidental Death Benefits:	$ 50,000

ARTICLE IX - NOTICE OF LOSS

In the event of loss which may cause a claim under this Agreement, notice is to be given to the Reinsurer as soon as practicable.

ARTICLE X - LOSS SETTLEMENTS

The Reinsurer agrees to abide by the loss settlements of the Company, such settlements to be considered as satisfactory proof of loss. All papers in the possession of the Company connected with the adjustment of said losses shall at all times, within a period of two years after the adjustment has been effected, be open to the inspection of a properly authorized representative of the Reinsurer. In no event shall the Reinsurer be liable for any payment of punitive or compensatory damages, or any fines or penalties imposed upon the Company by any state or federal regulatory body or court of law.

ARTICLE XI - EFFECTIVE DATE AND DURATION OF AGREEMENT

The Effective Date of this Agreement shall be 12:01 A.M. on July 1, 2003, and this Agreement shall be unlimited as to duration. This Agreement may be unilaterally terminated midnight, December 31, 2003 or any December 31 thereafter by either party giving the other 90 days prior written notice. Termination of this Agreement by the Company or Reinsurer unilaterally terminates the entire Agreement.

ARTICLE XII - EXTENDED EXPIRATION

If this Agreement should terminate while a catastrophic accident is in progress, it is agreed that this Agreement shall apply as if such catastrophic accident had occurred entirely within the term hereof.

ARTICLE XIII - PREMIUM

The premium to be paid to the Reinsurer, shall be based on an annual rate of $4.00 per $1,000,000 of average net amount at risk on the business covered hereunder for each calendar year. A prorated premium will be paid for calendar year 2003.

A minimum premium of $55,000, shall be paid to the Reinsurer at the beginning of each agreement year. Within sixty (60) days after the end of each Agreement Year, the Company shall furnish a statement of the mean net retained insurance inforce during each Agreement Year and appropriate adjustment, if any, shall be made in accordance with the foregoing paragraph subject to the minimum reinsurance premium of $55,000. A prorated minimum premium will apply to calendar year 2003.

For the purposes of this Agreement, the term "average net amount at risk" shall mean the average of the net retained insurance the subject matter hereof inforce at the beginning and end of each Agreement Year.

ARTICLE XIV - CURRENCY

All retentions and limits hereunder are expressed in United States dollars and all premium and loss payments shall be made in United States currency.

ARTICLE XV - TERRITORY

This Agreement shall only apply to policies issued to insureds domiciled in the United States of America, its territories and possessions, Puerto Rico, and the District of Columbia.

ARTICLE XVI - OFFSET

The Company or the Reinsurer shall have, and may exercise at any time and from time to time, the right to offset any balance or balances, whether on account of premiums or on account of losses or otherwise, due from one party to the other under the terms of this Agreement.

ARTICLE XVII - ERRORS AND OMISSIONS

Inadvertent delays, errors or omissions made in connection with this Agreement or any transaction hereunder shall not relieve either party from any liability which would have attached had such delay, error or omission not occurred, provided always that such delay, error or omission will be rectified as soon as possible after discovery.

ARTICLE XVIII - ACCESS TO RECORDS

The Reinsurer, or its duly appointed representatives, shall have the right at any reasonable time to examine all records in the possession of the Company referring to business effected hereunder.

ARTICLE XIX - COMMUTATION

The Company shall notify the Reinsurer of all claims hereunder which have not been finally settled at the end of two (2) years following the end of the Agreement Year in which they occurred. The Reinsurer may then, or at any time thereafter, request that its liability with respect to one or more of such claims be commuted. In such event the Company and the Reinsurer shall appoint a mutually acceptable Actuary or Appraiser to investigate, determine and capitalize such claim or claims. Payment by the Reinsurer of its share of the amount ascertained to be the capitalized value of such claim or claims shall constitute a complete and final release of the Reinsurer with respect to the claim or claims so capitalized. Any expenses incurred in connection with the commutation of claims, as provided herein, shall be paid by the Reinsurer.

ARTICLE XX - INSOLVENCY

In the event of the insolvency of the Company, this reinsurance shall be payable directly to the Company or to its liquidator, receiver, conservator or statutory successor immediately upon demand, with reasonable provision for verification, on the basis of the liability of the Company without diminution because of the insolvency of the Company or because the liquidator, receiver, conservator or statutory successor of the Company has failed to pay all or a portion of any claim. It is agreed, however, that the liquidator, receiver, conservator or statutory successor of the Company shall give written notice to the Reinsurer of the pendency of a claim against the Company indicating the policy or bond reinsured which claim would involve a possible liability on the part of the Reinsurer within a reasonable time after such claim is filed in the conservation or liquidation proceeding or in the receivership, and that during the pendency of such claim, the Reinsurer may investigate such claim and interpose, at its own expense, in the proceeding where such claim is to be adjudicated, any defense or defenses that it may deem available to the Company or its liquidator, receiver, conservator or statutory successor. The expense thus incurred by the Reinsurer shall be chargeable, subject to the approval of the Court, against the Company as part of the expense of conservation or liquidation to the extent of a pro rata share of

the benefit which may accrue to the company solely as a result of the defense undertaken by the Reinsurer.

It is further understood and agreed that, in the event of the insolvency of the Company, the reinsurance under this Agreement shall be payable directly by the Reinsurer to the Company or to its liquidator, receiver or statutory successor, except (a) where this Agreement specifically provides another payee of such reinsurance in the event of the insolvency of the Company or (b) where the Reinsurer with the consent of and in accordance with all of the requirements of the Insurance Department of the Company's state of domicile and the direct insured or insured has assumed such policy obligations of the Company as direct obligations of the Reinsurer to the payees under such policies and in substitution for the obligations of the Company to such payees.

The Reinsurer shall be liable only for the amounts reinsured and shall not be or become liable for any amounts or reserves to be held by the Company on policies reinsured under this Agreement.

ARTICLE XXI - DISPUTE RESOLUTION

The Reinsurer and the Company intend that any dispute between them under or with respect to this Agreement be resolved without resort to any litigation. Accordingly, the Reinsurer and the Company agree that they will negotiate diligently and in good faith to agree on a mutually satisfactory resolution of any such dispute; PROVIDED, HOWEVER, that if any such dispute cannot be so resolved by them within sixty calendar days (or such longer period as the parties may agree) after commencing such negotiations, the Reinsurer and the Company agree that they will submit such dispute to arbitration in the manner specified herein, and such arbitration proceeding will be conducted in accordance with, the rules of the American Arbitration Association.

The arbitration hearing will be before a panel of three arbitrators, each of whom must be a present or former officer of a life insurance or life reinsurance company. The Reinsurer and the Company will each appoint one arbitrator by written notification to the other party within thirty calendar days after the date of the mailing of the notification initiating the arbitration. These two arbitrators will then select the third arbitrator within sixty calendar days after the date of the mailing of the notification initiating arbitration.

If either the Reinsurer or the Company fail to appoint an arbitrator, or should the two arbitrators be unable to agree upon the choice of a third arbitrator, the president of the American Arbitration Association or of its successor organizations or (if necessary) the president of any similar organization designated by lot of the Reinsurer and the Company within thirty calendar days after the request will appoint the necessary arbitrators.

The vote or approval of a majority of the arbitrators will decide any question considered by the arbitrators; PROVIDED, HOWEVEr, that if no two arbitrators reach the same decision, then the average of the two closest mathematical determinations will constitute the decision of all three arbitrators. The place of arbitration will be in the state of domicile of the Reinsurer. Each decision (including without limitation each award) of the arbitrators will be final and binding on all parties and will be nonappealable and (at the request of either of the Reinsurers or the

Company) any award of the arbitrators may be confirmed by a judgment entered by any court of competent jurisdiction. No such award or judgment will bear interest. Each party will be responsible for paying (a) all fees and expenses charged by its respective counsel, accountants, actuaries, and other representatives in conjunction with such arbitration and (b) one-half of the fees and expenses charged by each arbitrator.

This Article shall survive the cancellation of this Agreement.

ARTICLE XXII - SEVERABILITY

If any part, term, or provision of this treaty shall be held void, illegal, or unenforceable, the validity of the remaining portion or portions shall not be affected thereby.

ARTICLE XXIII - CONTROLLING LAW

This Agreement shall be governed by and construed in accordance with the laws of the state of domicile of the Company.

ARTICLE XXIV - ENTIRE AGREEMENT

This Agreement constitutes the entire agreement of the parties with respect to the matters set forth herein and no amendment, alteration or modification of this Agreement shall be valid unless expressed in a written instrument duly executed by each of the parties hereto.

ALLSTATE LIFE INSURANCE COMPANY	AMERICAN HERITAGE LIFE INSURANCE COMPANY
/s/ Steven E. Shebik	/s/ Casey J. Sylla
Name: Steven E. Shebik	Name: Casey J. Sylla
Title: Senior Vice President and Chief Financial Officer	Title: Chairman of the Board
Date: 7/28/03	Date: 7/29/03

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the following registration statements of our report dated February 4, 2004 (which report expresses an unqualified opinion and includes an explanatory paragraph relating to changes in the methods of accounting for embedded derivatives in modified coinsurance agreements and variable interest entities in 2003), appearing in this Annual Report on Form 10-K of Allstate Life Insurance Company for the year ended December 31, 2003.

FORMS S-3 REGISTRATION NOS.	FORMS N-4 REGISTRATION NOS.
333-100068	333-31288
333-102319	333-72017
333-102325	333-96115
333-104789	333-102934
333-105208	333-105331
333-112233	333-112249

/s/ Deloitte & Touche LLP

Chicago, Illinois
March 24, 2004

EXHIBIT 31.1

CERTIFICATIONS

I, Casey J. Sylla, certify that:

1. I have reviewed this report on Form 10-K of Allstate Life Insurance Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 24, 2004

/s/ CASEY J. SYLLA

Name: Casey J. Sylla
Title: Chairman of the Board and President

EXHIBIT 31.2

CERTIFICATIONS

I, Steven E. Shebik, certify that:

1. I have reviewed this report on Form 10-K of Allstate Life Insurance Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 24, 2004

/s/ STEVEN E. SHEBIK

Name: Steven E. Shebik
Title: Senior Vice President and Chief Financial Officer

EXHIBIT 32

CERTIFICATIONS
PURSUANT TO 18 UNITED STATES CODE SECTION 1350

Each of the undersigned hereby certifies that to his knowledge the report on Form 10-K for the fiscal year ended December 31, 2003 of Allstate Life Insurance Company filed with the Securities and Exchange Commission fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and result of operations of Allstate Life Insurance Company.

Date: March 24, 2004

/s/ Casey J. Sylla

Casey J. Sylla
Chairman of the Board and President

/s/ Steven E. Shebik

Steven E. Shebik
Senior Vice President and Chief Financial Officer